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**TOWARDS THE ENLARGED UNION**  
**Strategy Paper**  
**and**  
**Report of the European Commission**  
**on the progress towards accession by each of the candidate countries**

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# **Towards the Enlarged Union**

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## **1. THE OVERALL CONTEXT**

### **1.1. Europe on the eve of enlargement**

The next enlargement of the Union will further strengthen the unity of the European continent and help create an area of lasting peace and prosperity.

In 1993, the Copenhagen European Council opened up the perspective of enlargement to include the countries of Central and Eastern Europe. The EU subsequently launched an ambitious pre-accession strategy that has guided and sustained the candidates' preparations for membership until the present day.

In striving to fulfil the EU's accession criteria and adopting the EU's regulatory framework, candidates have been able to accelerate domestic reforms at the same time as they have been preparing for EU membership. Europe's citizens have grown closer together – as shown in the solidarity among current and future EU members during the severe floods which hit Central and Eastern Europe this summer.

The historical and political arguments in favour of enlargement are compelling. It will also produce substantial economic benefits.

Both the existing Member States and the prospective members benefit from political stability. Stable democracies have emerged in Central and Eastern Europe. The credit for this success belongs mainly to the people of those countries themselves. The political stability in the Central and East European candidate countries is rooted in common European values : democracy, the rule of law, respect for human rights and the protection of minorities. Causes of conflict, such as minority issues and border problems, are removed. A stable political framework is a precondition for lasting peace and neighbourly co-existence, as well as for a successful economy.

This means an opportunity for the candidate countries to improve their living standards and their prospects in global competition. Candidate countries already conduct between a half and two-thirds of their trade with the EU. The rapid growth in trade has helped to develop new markets and investment. Full integration with accession, together with the adoption of common rules and standards across the world's largest single market, will further enhance the opportunities to achieve socially and environmentally sustainable growth.

On the basis of political and economic stability, the enlarged Union will be better equipped to confront global challenges. An enlarged Union will add weight to the EU's external relations, in particular to the development of a common foreign and security policy. Improved co-operation between current and future Member States will help combat international crime and terrorism.

The enlarged EU will need to look beyond its own borders to develop a new neighbourhood policy for the benefit of all. Reflections on the policy for a 'wider Europe' are being developed. They aim for a more coherent approach of an enlarged Union to the neighbouring countries. The Commission is presently examining the options of

enhancing the EU policy towards the new neighbours in order not only to counterbalance possible fears following enlargement but to ensure that enlargement provides opportunities, such as an expected increase in trade and economic growth on both sides. Such a new proximity policy will underline that an enlarged EU will ensure an open attitude and foster common interests and activities with its neighbours in the Western Balkans, Eastern Europe and the Mediterranean.

The future Member States are making valuable contributions to the discussions on the future of Europe in the context of the European Convention which prepares the way for the next institutional reform. The work of the Convention is essential for the future of Europe. The full participation of the candidate countries has clearly shown the added value of an enlarged Union.

The Commission's assessment of candidate countries in this year's Regular Reports carries three important messages:

- The Union's pre-accession strategy has proved a success. The transformation process in the candidate countries has been considerably accelerated by the prospect of enlargement.
- The accession negotiations, which have been based on the principles of own merits, differentiation and catching up, can be concluded with most candidates by the end of 2002. Preparations for enlargement will continue.
- Enlargement is an inclusive process which is not yet completed with the first accessions. The European Union continues to give its full support to current candidates that will not be in a position to participate in the next wave of enlargement.

Candidates have invested significant efforts in the enlargement process. Important political and economic decisions have been made in anticipation of enlargement. In order to reach the full benefits of integration for both future and current Member States, the envisaged timeframe for enlargement must be kept without compromising the quality of the accession process.

The Commission hopes to see a re-united Cyprus acceding to the European Union on the basis of a comprehensive settlement, as the best outcome for all concerned. . As indicated in the conclusions of the Seville European Council, the Union is ready to accommodate the terms of a political settlement in the accession arrangements in line with the principles on which the European Union is founded. The Commission welcomes that substantial UN involvement will continue. All parties concerned should now make a concerted effort to achieve such a settlement before the completion of the accession negotiations. Taking into account the statements of the UN Security Council, the Commission urges Turkey, in particular, to lend full support to efforts to reach a comprehensive settlement this year. In this event, Cyprus' terms of accession can be adapted to reflect the comprehensive settlement as well as its implications for the application of the *acquis* throughout the island.

The Commission continues to be active in contact with all the parties concerned to reinforce efforts to reach a settlement. It has proposed that the Union make available considerable resources to support the northern part of the island to catch up and to back up a settlement. The Commission notes that, in the absence of a settlement, the decisions

to be taken in December by the Copenhagen European Council will be based on the conclusions of the Helsinki European Council.

In its successive meetings in Gothenburg, Laeken and Seville, the European Council reaffirmed that, if the present rate of progress in negotiations and reforms is maintained, the European Union is determined to conclude the negotiations with Cyprus, Malta, Hungary, Poland, the Slovak Republic, Lithuania, Latvia, Estonia, the Czech Republic and Slovenia by the end of 2002, if those countries are ready. The objective remains that these countries should participate in the elections for the European Parliament in 2004 as full members. The European Council in Seville added that, in order to enable it to decide with which candidate countries negotiations can be concluded at the end of 2002, the Commission would have to draft appropriate recommendations in the light of its Regular Reports.

The Seville European Council also encouraged Bulgaria and Romania to pursue their efforts and reiterated the Union's commitment to give them full support in their preparation for accession.

It added that an updated road map and a revised and enhanced pre-accession strategy should be adopted in Copenhagen for the candidate countries still engaged in negotiations. An increase in pre-accession financial aid could also be contemplated. Furthermore, if the current pace is maintained, a more precise timetable could be set for these countries' accession process by the end of the year.

This Communication examines the above-mentioned requests of the European Council.

## **1.2. Public opinion and the enlargement process**

The major role in explaining enlargement to citizens in candidate countries, as in the Member States, should be played by the national governments. The Commission supports this effort and has developed a communication strategy for that purpose. The clear message, which should be given by all actors responsible for the success of the process, is that enlargement is a win-win game, in which the re-unification of Europe will extend the area of peace, prosperity and security throughout the continent.

Support for enlargement is generally strong in the candidate countries. In Member States, it is important to increase the awareness and knowledge of the countries that will soon be joining the Union and to explain the results of the enlargement process. More needs to be done to explain the benefits of an enlarged Union both in terms of increased political stability and the prospect for sustained economic growth, and the enormous progress that has been made in economic and political reform in the region since 1989. This will help to dispel perceived problems as to the preparedness of the candidates to join the Union.

## **1.3. Administrative preparations for enlargement**

Ensuring a successful and smooth transition to an enlarged EU also requires preparations at the administrative level within the current EU Institutions. Such preparations have been underway for some time, to ensure that all necessary measures are in place by the date of accession. This ongoing work includes, *inter alia*, assessments of staffing needs and associated recruitment preparations, provision of translating and interpreting in

additional languages, preparation of buildings, schools etc. The Institutions have been working together to ensure that such preparations are in place for each Institution. The Commission described the progress made on the tasks ahead in its *Road Map for Administrative Preparations for Enlargement*<sup>1</sup>, which is based on the working hypothesis that ten acceding countries with nine additional languages will join on 1 January 2004. This roadmap will be updated once the decisions on the acceding countries and their date of accession have been taken.

In its Communication on *Activities and Human Resources of the Commission in the Enlarged EU*<sup>2</sup>, the Commission identified in particular its additional human resource needs in terms of full-time posts, which should be phased-in from 2004 and be completed by around 2008. Moreover, it is clear that in certain policy areas such as agriculture, structural policies and the linguistic services, the human resource needs arising from enlargement will be high not only after but also immediately prior to accession. For this reason the Commission undertook a thorough assessment of its additional resource requirements which resulted in its request for 500 non-permanent posts already in 2003 to meet priority needs, mostly to be filled by nationals from candidate countries.

#### **1.4. The Copenhagen Criteria**

In June 1993, the European Council at Copenhagen laid down the foundations of the current enlargement process by declaring that *"the associated countries in Central and Eastern Europe that so desire shall become members of the European Union"* and by defining the membership conditions, the so-called Copenhagen criteria. Under the Copenhagen criteria, membership requires that the candidate country ensures :

- *"stability of institutions guaranteeing democracy, the rule of law, human rights and the respect for and protection of minorities"*: the political criteria.

Since the entry into force of the Treaty of Amsterdam in May 1999, these requirements have been enshrined as constitutional principles in the Treaty on European Union, and have been emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

- *"the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union"* : the economic criteria.

These criteria are consistent with the principles for economic policies as enshrined in the EC Treaty by the Maastricht Treaty that entered into force on 1 November 1993.

- *"ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union"*. This criterion refers to the implementation of the Union's legislation, known as the *acquis communautaire*. For that reason, it is referred to thereafter as the *acquis* criterion. Subsequent European Councils, in particular the Madrid European Council in 1995, have highlighted the importance,

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<sup>1</sup> see SEC(2002) 1015 of 25.09.2002

<sup>2</sup> COM(2002) 311 of 05.06.2002

not only of incorporating the *acquis* into national legislation, but also of ensuring its effective application through appropriate administrative and judicial structures.

Since its 1997 Opinions on the applications for membership by the countries of Central and Eastern Europe, the Commission has evaluated annually in its Regular Reports, extended also to Cyprus, Malta and Turkey, the progress made by the candidate countries towards meeting the Copenhagen criteria. The Commission developed, in the context of Agenda 2000<sup>3</sup>, a methodology for that purpose.

Under this methodology, the Regular Reports assess progress in terms of legislation and measures actually adopted or implemented. This approach ensures equal treatment for all candidates and permits an objective assessment of the situation in each country. Progress towards meeting each criterion is assessed against a detailed standard checklist, which allows account to be taken of the same aspects for each country and which ensures the transparency of the exercise. The Reports draw on, and are cross-checked with, numerous sources, starting from information provided by the candidate countries themselves, and many other sources including reports from the European Parliament, evaluations from Member States, or the work of international organisations and non-governmental organisations. This year's Reports also contain some forward-looking elements.

In order to evaluate the extent to which candidates meet the political criteria, the Commission not only provides a description of their various institutions (Parliament, Executive, and Judiciary), but examines how the various rights and freedoms are exercised in practice. With regard to human rights, the Commission analyses the way in which the candidate countries respect and implement the provisions of the major human rights conventions, including in particular the European Convention for the Protection of Human Rights and Fundamental Freedoms. As regards respect for minority rights and the protection of minorities, the Commission devotes particular attention to the implementation of the various principles laid down in the Council of Europe Framework Convention for the Protection of National Minorities. Measures undertaken by the countries in order to fight against corruption are also examined.

The economic criteria consist of two elements : the existence of a functioning market economy, and the capacity to withstand competitive pressure and market forces within the Union. These two elements are assessed through a number of sub-criteria which have been defined in Agenda 2000. The existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy. The capacity to withstand competitive pressure and market forces within the Union requires the existence of a market economy and a stable macroeconomic framework. It also requires a sufficient amount of human and physical capital, including infrastructure. It depends on the extent to which government policy and legislation influence competitiveness, on the degree of trade integration a country achieves with the Union and on the proportion of small firms.

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<sup>3</sup> *Agenda 2000: For a stronger and wider Union*, COM (97) 2000 final. See in particular Part Two - The Challenge of Enlargement: I. Assessment on the basis of the accession criteria.

The ability to take on the obligations of membership requires the adoption, implementation and enforcement of the *acquis*. In its Reports, the Commission analyses, for each of the twenty-nine chapters of the *acquis*, the extent to which the necessary legislative measures have been taken to enable implementation of the *acquis* in that chapter, and what remains to be done in this regard. Furthermore, the Commission assesses to what extent each candidate country has established administrative structures required to implement the *acquis*.

This year's Regular Reports take a broader perspective than in previous years. In addition to assessing progress made by each candidate, they also evaluate to what extent the candidates will fulfil the Copenhagen criteria by accession, taking into account the envisaged timeframe for enlargement defined by the European Council.

This requires a careful examination of the progress achieved by each country over the past years<sup>4</sup>, of their track record in implementing the commitments made in the negotiations and of whether the countries sufficiently fulfil the Copenhagen criteria. These latter aspects are particularly important when assessing the ability to take on the obligations of membership. The implementation already now by a given candidate country of a critical mass of the *acquis* in the various chapters, and a positive track record over the past years, are necessary conditions for concluding that this country will be able to apply the *acquis* upon accession. Information available to the Commission on the relevant ongoing preparations, in particular in the context of the monitoring process, is also taken into account.

The Regular Reports identify the candidate countries which will meet the Copenhagen criteria within the envisaged accession timeframe. They are the basis upon which the Commission recommends the conclusion of the negotiations with these countries at the end of 2002. For all countries, the Reports identify the areas where further efforts are needed or reforms have to be pursued.

### **1.5. Reinforcing administrative and judicial capacity**

The Commission attaches the greatest importance to ensuring that the candidates further reinforce their administrative and judicial capacity. It is an essential requirement for creating mutual trust among Member States, indispensable for membership. In its 1997 Opinions and subsequent Regular Reports, the Commission has carefully monitored the progress made by each country in this area. Large parts of the Community pre-accession assistance have been programmed since the early 1990s to help candidates in their efforts to build and reinforce their administrative and judicial structures.

As announced in its 2001 Enlargement Strategy Paper, *Making a success of enlargement*, the Commission has prepared in the first quarter of 2002 jointly with each negotiating country an Action Plan to reinforce their administrative and judicial capacity. Based on the 2002 Accession Partnership priorities, the Action Plans identify the concrete

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<sup>4</sup> since the 1997 Opinions for the Central European candidates, since the 1998 Regular Report for Cyprus and Turkey, and since the 1999 update of the Opinion for Malta

measures that remain to be taken for each country to achieve an adequate level of administrative capacity by the time of accession.

The Action Plans identify targeted assistance required to support the countries in their efforts. For that purpose, the Commission has mobilised additional financial assistance of up to € 250 million in 2002 to accompany these efforts, bringing the Community's total support to strengthen the administrative and judicial capacity of the negotiating countries in 2002 to around €1 billion.

Furthermore, the Action Plans note the relevant commitments made in the negotiations and any additional monitoring actions, in particular peer reviews, that may be required in certain areas to assess each country's preparations. All 12 negotiating countries have been subject to peer reviews to different degrees. In total, 205 peer reviews have been conducted through the Technical Assistance Information Office (TAIEX) in 17 sectors and involving the mobilisation of over 800 experts (details provided in **Annex 5**). Some peer reviews, in the financial control sector, have been organised through Support for Improvement in Governance and Management (SIGMA), while the Commission services have themselves undertaken a number of monitoring actions in other areas. A special peer review on nuclear safety was carried out during the first half of 2002 under the auspices of the Council that resulted in a status report in June 2002.

The exchange of information between experts from equivalent bodies in the candidate countries and Member States is a key component of the peer review exercise. The reports of the peer reviews, which have been made available to the candidate countries and to the Member States, have contributed to the Commission's analysis contained in the Regular Reports. The results of the peer reviews will be used by the candidates to identify further necessary actions. They should also contribute to developing peer assistance activities for the candidates, in order to exchange best practice, in the period up to their accession and beyond.

The Action Plans have given a new impetus to the candidates' efforts in reinforcing their administrative and judicial capacity. On the whole, they are being implemented according to schedule. It is important that candidate countries continue to make sustained efforts in implementing the Action Plans.

## **1.6. The accession negotiations**

### *1.6.1. State of play*

The accession negotiations are well advanced. Six countries have been negotiating since 1998 (Cyprus, Czech Republic, Estonia, Hungary, Poland, Slovenia), and six further countries entered negotiations in early 2000 (Bulgaria, Latvia, Lithuania, Malta, Romania, and Slovakia). The European Council in Nice in December 2000 decided on a roadmap for the accession negotiations, which established a timeframe for the Union to define its position on outstanding negotiating chapters. The roadmap has been very useful in moving the negotiations forward, by helping all sides to follow a realistic plan. The Union has defined common positions in accordance with the roadmap, leading to provisional closure of a considerable number of chapters. The state of play of the negotiations is presented in **Annex 6**.

### 1.6.2. Commitments

The provisional closure of a chapter depends inter alia on the Union accepting the credibility of the commitments made by the candidate countries. Generally, this is based on key parts of the *acquis* having been already transposed. Candidate countries have to ensure that they meet all their commitments as planned. The Commission closely monitors the implementation of these commitments, in particular through monitoring reports and the Action Plans on administrative and judicial capacity. So far, the implementation of commitments made in the negotiations has been largely on track; in the few cases where problems or delays had arisen, solutions were found and there was no need for the Commission to recommend the reopening of any chapter.

The assessment made in this year's Regular Reports confirms that, in most cases, candidates generally meet the commitments made in the negotiations. Where the commitments refer to measures to be completed by the time of accession, the Commission's assessment is based on the relevant preparatory process. The Reports identify some cases where candidates experience problems in meeting their commitments. This concerns mainly the areas of agriculture, environment and fisheries. In such cases candidates should take all necessary remedial actions in order to ensure that commitments are fully met.

### 1.6.3. Transitional arrangements

While accession negotiations are based on the principle that candidate countries effectively apply the *acquis* upon accession, a number of well-justified transitional measures have been agreed in the negotiations, in line with the principles laid down for transitional measures. These principles state that any transitional measure has to be limited in time and scope and be accompanied by a plan clearly defining stages for the application of the *acquis*. In addition, transitional measures must not involve amendments to the rules and policies of the Union, disrupt their proper functioning, or lead to significant distortions of competition. Transitional measures have been agreed, upon request of both the candidate countries (some 190 requests accepted so far) and the Union (some 28 requests accepted so far). The scope of these measures varies across sectors and countries.

Transitional measures requested by candidate countries have been agreed, for example in areas where the effective application of the *acquis* requires substantial prior financial investments. Examples are the construction of waste water treatment plants in municipalities or the building up of emergency oil stocks. Investment plans and detailed strategies for the gradual compliance with the *acquis* have been agreed in such cases. Also, the free movement of capital from current into new Member States with the aim to buy land and secondary homes has been temporarily restricted.

Upon request of the Union, few well-defined and limited transitional arrangements have been agreed in response to perceived regional or sectoral disturbances resulting from the full application of the *acquis* in the enlarged Union. The free movement of workers from new into current Member States has been temporarily restricted, the protection of industrial property rights for pharmaceutical products and community trademarks from the EU has been enhanced and access to the national road transport markets (cabotage) between current and certain new Member States has been temporarily restricted.

## 2. PROGRESS BY THE CANDIDATE COUNTRIES IN MEETING THE MEMBERSHIP CRITERIA

### 2.1. Political Criteria

#### 2.1.1. Overall development

In its 1997 Opinions and subsequent Regular Reports, the Commission has been evaluating candidates' progress towards meeting the Copenhagen political criteria. Since 1999, the Commission has judged that all candidates involved in the negotiations meet these criteria. Over the past five years, progress in consolidating and deepening democracy and respect for the rule of law, human rights and the rights of minorities has been considerable.

Over the past year, the functioning of the **democratic systems of government** in the candidate countries was confirmed. National or local elections, which were free and fair, were held in several countries.

Work continued to consolidate and modernise the **public administration**. A legal framework for the civil service has now been established in all candidates, and training of civil servants has become the norm. Several countries have progressed with establishing codes of conduct, clear distinctions between political and administrative responsibilities, and putting in place legislation on access to public information.

Most countries have advanced in reforming and strengthening their **judicial system**, a key factor in ensuring respect for the rule of law and the effective enforcement of the *acquis*. Decisive steps forward were taken in most countries in adopting basic legislation, strengthening human resources and improving working conditions. In several countries, progress was made in developing and reinforcing mechanisms to ensure that court decisions are duly enforced, and in improving citizens' access to justice. In most countries, further progress was made in tackling the problem of judicial backlogs. Efforts to further consolidate reforms in this area will need to continue.

Progress has been made in the fight against **corruption**, fraud and economic crime, but this area remains a source of concern. Anti-corruption strategies are now in place in most countries and anti-corruption bodies have been further reinforced. Further progress has been made in terms of legislation, including in such areas as public procurement and the financing of political parties, and significant efforts have been made in terms of awareness raising. There are indications that in a number of countries, popular awareness of the dangers of corruption for the economy and society as whole is increasing. Encouraging developments noted as regards transparency, accountability and efficiency of the public administration are of relevance also in this field. Efforts must be sustained.

In a number of countries further steps were taken to reinforce the legislative and institutional framework for ensuring **gender equality**. In some countries significant steps forward were taken also to assist victims of domestic violence. Further efforts are needed to promote the economic and social equality between women and men.

In all countries with considerable **Roma** communities, progress has been made with the implementation of national action plans to improve the difficult situation the members of

these communities are facing. Continued efforts are required to ensure that the various action plans continue to be implemented in a sustained manner, in close co-operation with Roma representatives. Adoption and due implementation of comprehensive anti-discrimination legislation, in line with the Community anti-discrimination *acquis*, would be an important step forward where such legislation is still missing.

Further positive developments can be noted with regard to the protection of **minorities**. In Estonia and Latvia, continued progress was made in the integration of non-citizens. In several countries, the legal and institutional framework for the protection of minorities was further reinforced. In Bulgaria, Slovakia and Romania members of minority communities continued to play an important role in national political life.

In previous years, the Commission had underlined the problem of **childcare institutions** in Romania. The legislative, administrative and financial measures taken by the Romanian authorities are beginning to bear fruit. The number of children in residential care has decreased, and their living conditions have improved. Efforts need to be maintained.

### *2.1.2. Conclusions*

All presently negotiating countries continue to meet the Copenhagen political criteria. This has been confirmed over the past year.

Turkey's progress and situation as regards the political criteria is presented in section 5 below.

The conclusions of each Regular Report are contained in **Annex 1**. The list of Human Rights conventions ratified by the candidate countries is in **Annex 3**.

## **2.2. Economic Criteria**

### *2.2.1. Overall development*

This year's Regular Reports' assessments of candidates' progress towards meeting the Copenhagen economic criteria take a broader look than in previous years. They look at progress achieved since the last Regular Reports, and take stock of achievements in meeting these criteria over the period since 1997, when the Commission drafted its Opinion for most candidates. A summary of main developments is presented below and selected economic indicators per country are presented in **Annex 7**.

Over the period 1997-2001, most candidate countries registered average rates of **economic growth** well above the EU average of 2.6%. The global slowdown that started in late 2000 also affected the EU, and with it, the candidates. As a result, growth slowed down in a number of candidate countries in 2001, but over the first half of 2002, the aggregate economic development has been fairly stable. **GDP per capita** measured in Purchasing Power Standards reached, on average for the ten transition economies, 39.3% of the EU average in 2001, up from 38.5% in 2000. Over the five year period, most candidates witnessed some catching up.

Candidate countries have continued to adjust their production structures. They saw their agricultural sector's **share in GDP** decline over the period, and the service sector further increase, although not yet reaching EU levels.

**Inflation** in most candidate countries has been on a downward trend over the period. This trend towards lower inflation continued in 2001 with single digit inflation in most countries. Over the past 5 years, most candidates have established an independent central bank, many of which have adopted inflation targeting strategies aiming at price stability.

On average for all candidate countries, the period has been marked by falling **employment**, mainly driven by the ongoing restructuring of domestic industries and partly by some structural deficiencies in labour markets. Unemployment rates are still high in many countries. In 2002, a number of countries appear to be ending a period of labour shedding and are recording employment growth.

All candidates reported **general government deficits** over the period. In 2001 the average deficit of the 10 Central and Eastern European countries rose from 3.2% to 3.8%, as a result of the economic slowdown, loosening of fiscal policy, transition related one-off expenditures and better measurement.

Over the period, the **trade and current account** deficits have remained relatively high in most countries but they stay within sustainable levels. Most countries have been able to attract sufficient inflows of foreign direct investments to finance these deficits. In general, the trade and current account deficits improved somewhat in 2001.

**Privatisation** of the economy has made impressive progress since 1997, reaching levels comparable to the EU, but efforts are required to complete the **restructuring** of a number of sectors.

**Financial intermediation** has strengthened. Almost all countries now have a more efficient and stable banking sector. The average of the transition economies' domestic bank lending to the private sector is still low at nearly 27% of GDP in 2001.

**Market entry and exit** conditions have reached sufficient degrees of efficiency and legal certainty. Property rights are well established and important progress has been made on bankruptcy legislation and procedures. However, in most countries, implementation of the legal framework needs to be further enhanced.

The European Union is the main trading partner and foreign investor for all candidates. A high degree of **economic integration of candidates with the EU** has been achieved.

### *2.2.2. Conclusions*

The progress of each country has been assessed according to the sub-criteria of the Copenhagen economic criteria – the existence of a functioning market economy and the capacity to withstand competitive pressure and market forces within the Union.

Taking the two sub-criteria together, it is re-iterated that Cyprus and Malta are functioning market economies and should be able to cope with competitive pressure and market forces in the Union.

The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia are likewise functioning market economies, as previously concluded. According to this year's assessments, these countries have made further and sufficient progress in macroeconomic stabilisation and economic reform and the continuation of their current reform paths should enable them to cope with competitive pressure and market forces within the Union.

Hence, taking into account the commitments which have to be met by accession by these ten countries, the Commission considers that they will have fulfilled the Copenhagen economic criteria within the timeframe envisaged for accession. The conclusions of the Regular Reports identify the major areas where improvements to the functioning of the market economy or the competitiveness in the Union should still be made. These areas, whilst not exhaustive, indicate priority areas of action.

After having been considered close to being a functioning market economy, this year's Regular Report for the first time concludes that Bulgaria is a functioning market economy. Provided it continues implementing its reform programme to remove remaining difficulties, it should be able to cope with competitive pressure and market forces within the Union in the medium term.

Romania has continued to make progress towards being a functioning market economy, for which the prospects have improved. Sustained and full implementation of planned measures together with the completion of the reform agenda should allow Romania to be able to cope with competitive pressure and market forces within the Union in the medium term.

Turkey has made progress on the functioning of its market economy which should improve its capacity to cope with competitive pressure and market forces within the Union, but is still undergoing the consequences of two deeply destabilising financial crises.

The conclusions of each Regular Report are contained in **Annex 1**.

### **2.3. Other obligations of membership (including administrative capacity)**

#### *2.3.1. Overall development*

This year's Regular Reports' assessment of developments with regard to the Copenhagen *acquis* criteria also take a broader look than in previous years. In addition to evaluating progress made by each candidate since the last year, this year's Reports look at progress achieved by each country since the 1997 Opinions (since the 1998 Regular Report for Cyprus and Turkey, and since the 1999 update of the Opinion for Malta), their track record in implementing the commitments made in the negotiations and the degree of alignment and implementation of the *acquis*. As the *acquis* has considerably developed over the last 3 to 5 years, progress during that period has also been assessed as regards the new *acquis* adopted by the Union. In addition, information available to the Commission on the relevant ongoing preparations and detailed implementation plans has been taken into account.

The Reports show that, overall, candidate countries have generally reached a high degree of alignment in many areas, as a result of the considerable progress in transposing the

*acquis* over the last years. Steady progress has also been made in building up the administrative and judicial structures required for implementing and enforcing the *acquis* and most countries are well advanced towards reaching an adequate administrative capacity in a considerable number of fields. Moreover, commitments made in the negotiations are generally being fulfilled.

The *acquis* is already being implemented in a number of sectors. In other sectors, alignment with the *acquis* needs to be finalised and the building up of the necessary administrative capacity needs to be completed in view of accession. The continuation of countries' efforts in line with the commitments or requirements agreed in the negotiations should enable them to assume their obligations of membership with regard to these sectors within the envisaged enlargement timeframe.

For example, in the *internal market* sector, substantial progress has been made and most countries have now reached a reasonable level of alignment and implementation of the *acquis*. Good progress has been made in particular in the areas of standardisation and certification where framework legislation and basic infrastructure are in place in most countries. Transposition of the *acquis* on financial services, in particular the banking legislation, is generally well advanced. Liberalisation of capital movements in line with the *acquis* is now almost complete in most countries.

Further efforts are still needed in order to reinforce the administrative capacity in areas such as market surveillance and food safety. In public procurement, legislative transposition needs to be completed and enforcement structures reinforced. Attention should be paid to the area of mutual recognition of professional qualifications, where legislative alignment with respect to the health care professions still needs to be completed and, in some cases, curricula and training adapted to Community requirements. Attention also needs to be paid to the proper implementation of the money laundering directives and financial services legislation, in particular the independence of supervisory authorities. While the transposition of the intellectual and industrial property rights advances at a satisfactory pace, the degree of enforcement of the legislation can still be improved.

In the field of *competition*, anti-trust legislation is already largely in line with the *acquis* in most countries, but continuous attention has to be devoted to ensure the effective application and enforcement of the rules. As regards state aid, in a number of countries incompatible existing aid schemes, often in the form of fiscal incentives, should be brought into line with the *acquis* and the countries' enforcement track record needs to be developed. In addition, a number of countries still need to improve state aid control in certain sensitive sectors, such as shipbuilding and steel, where in particular restructuring plans need to be implemented.

In the area of *consumer policy*, where legislative alignment is generally advanced, candidates need to continue their efforts to complete transposition and to implement the legislation. Effective implementation of the *acquis* will make sure that the products on the enlarged internal market are safe and that the rights of the consumers are protected.

In the *environment* sector, in addition to finalising the transposition of the *acquis*, candidates need to focus their efforts on reinforcing their overall administrative capacity to apply it, in particular in the areas of waste management and industrial pollution. For a number of issues, the provision of necessary financial means needs to be ensured.

In the field of *transport*, legislative alignment has been progressing in most candidate countries, with implementing legislation outstanding. However, some candidates still need to complete alignment and to carry out reform in the rail sector. Others have to make important progress in the field of maritime transport. Administrative capacity needs to be strengthened in all areas to enforce the *acquis* strictly, in particular in the field of road transport (including the social *acquis*). Similarly, a number of countries need to strengthen their efforts in order to comply with the *acquis* concerning maritime safety. The extended Trans-European Transport Network will require substantial investments over the coming decade.

In the field of *energy*, some countries still need to complete the additional requirements arising from the necessary legislation for the internal energy market. This is also important in view of the forthcoming *acquis*. Most need to strengthen their administrative capacity. The recommendations of the Council report on ‘Nuclear Safety in the context of Enlargement’ are being addressed. In particular, some countries need to continue efforts to strengthen their nuclear safety authorities. Two candidates have made firm commitments to close certain nuclear power plants. These commitments will need to be included in the Accession Treaty.

In the field of *telecommunications*, efforts are still needed for full implementation of the telecommunication *acquis*, to strengthen the administrative capacity and the independence of the regulator in most countries. The economic impact of full implementation of the universal service obligations has to be assessed.

In the area of *social policy and employment*, while alignment with the *acquis* is well advanced, most countries still need to strengthen their administrative capacity in particular in the areas of public health and health and safety at work. In addition, social inclusion should be further promoted in the light of the common objectives set out for the Union and candidate countries need to continue translating the Union’s objectives into their national employment policies. Candidate countries should strengthen their efforts in the areas of social inclusion and employment to prepare for their future participation in the open method of cooperation at EU level and for their preparation for the future intervention of the European Social Fund. The importance of investing in sustainable health systems also needs to be underlined.

In the *fisheries* sector, the main priority is to reinforce the capacity of the national administrations concerned to apply Community legislation, particularly in the area of market regulations and maintenance of the fishing fleet register. Enforcement of Community rules on fishing, such as catch limits and technical regulations, will also require a significant increase in resources in some candidate countries.

In the field of *justice and home affairs*, most countries have made good progress in all areas of the *acquis*. In particular, each country’s Schengen Action plan has allowed them to structure the necessary key actions and to advance in their implementation. Administrative and judicial capacity needs to be markedly reinforced, in particular in the context of border management, fight against fraud, corruption, money laundering and organised crime.

In the field of *taxation*, the generally good legislative alignment needs to be completed in most countries, in particular as concerns VAT and excise legislation. Administrative

capacity needs further strengthening and efforts need to be mobilised for the computerised tax information systems to be implemented and become operational.

In the area of *external relations*, candidates have reached a good level of alignment with the *acquis*. However, decisive steps are needed as a matter of urgency to bring the bilateral investment treaties in conformity with Treaty obligations. Failure to do so will mean that the conflict between the bilateral investment treaties and Treaty obligations will need to be resolved through the Accession Treaty.

For a limited number of sectors, this year's Reports identify, for individual countries, areas of the *acquis* where special efforts are needed, underlining, in some cases, the measures which need to be urgently taken. Special efforts from several candidates are required, in particular in the sectors outlined below.

In the *customs* sector, alignment with the *acquis*, although very advanced, still needs to be completed in some countries. Special efforts should now focus on further reinforcing the administrative capacity to apply the *acquis* in this sector and on information technology development. In particular, preparations for ensuring full interconnection of the national systems with Community customs information technology systems need to be pursued or accelerated depending on the countries. The capacity of the customs services to combat customs fraud also needs to be strengthened in a number of countries. In addition, all countries need to take the necessary steps to prepare for the application of measures and provisions that will be introduced only at the time of accession, including in some cases in relation to free zones.

In the *agriculture* sector, most countries need to focus their efforts on finalising alignment of their legislation with the Common Agricultural Policy *acquis* and further reinforcing their administrative capacity to implement and enforce it. In particular, very few candidate countries are at an advanced stage regarding the setting up of the integrated administration and control scheme (IACS), including the land parcel identification system which is indispensable for the management and control of direct payments. Many candidates need to step up their efforts to build up an operational IACS by accession and for some candidate countries urgent and very serious efforts are required on key decisions and related funding if IACS is to be operational by accession. If the required administration and control structures are not fully operational or do not operate correctly upon accession, the candidates concerned will be unable to benefit fully from the support systems under the common agricultural policy, or will be required to reimburse EC funds already received. A number of countries need to complete preparations for the paying agency and others still need to conclude the process of agricultural land reform.

Administrative capacity also needs to be reinforced in the veterinary field and that of food safety, where particular attention should be given to ensuring that establishments are duly upgraded to meet Community standards. Failure to do so could preclude candidates from availing fully of the opportunities presented by the Internal Market in this domain.

In the *regional policy* sector, while a legislative framework for the implementation of the *acquis* has generally been introduced, candidates need to clearly define their final

implementation structures and reinforce their administrative capacities. In particular, countries need to focus their efforts on completing their programming documents. They need to strengthen inter-ministerial co-ordination and partnership as well as to reinforce their systems and procedures for effective monitoring, financial management and control of structural and cohesion funds at all levels. The Commission draws also the attention to the fact that Community funding can not be approved until all conditions ensuring sound management of the funds are in place.

In the *financial control* sector, where legislative alignment is well advanced in most countries, candidates need to focus their efforts on implementing adequate Public Internal Financial Control and External Audit systems. For Community funding to be available, all conditions ensuring the sound management of these funds need to be in place. Countries need to ensure the proper management of pre-accession funds and future structural funds and to strengthen their administrative structures to protect the Community's financial interests by the second half of 2003.

The progress made over the past years results in a situation where most candidate countries already implement considerable parts of the *acquis*. In most countries, the necessary legislative framework and implementing structures are in place to a large extent. Detailed plans have been agreed, in particular in the negotiations and in the Action Plans, to cover the identified remaining gaps and are being implemented.

### 2.3.2. *Conclusions*

Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia have reached a high level of alignment with the *acquis* and have made considerable advances towards ensuring adequate administrative and judicial capacity. Bearing in mind the progress achieved by these countries, their track record in implementing the commitments they have made in the negotiations, and taking into account their preparatory work in progress and foreseen, the Commission considers that these countries will be able to assume the obligations of membership in accordance with the envisaged timeframe.

These countries should continue their efforts in legislative alignment and administrative capacity building as foreseen. The Regular Reports show that they need to undertake urgent action in a limited number of specific areas within certain chapters. The candidate countries have been informed. The Commission expects them to initiate the necessary measures in order to overcome the problems identified. This will be closely monitored.

Bulgaria, Romania and Turkey do not fully meet the *acquis* criteria. These countries should focus further efforts on the areas identified in the Regular Reports.

The conclusions of each Regular Report are contained in **Annex 1**.

## 2.4. **Overall conclusions and recommendations**

This year's Regular Reports show that all candidate countries have made considerable further progress in implementing the Copenhagen criteria.

Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia fulfil the political criteria. Bearing in mind the progress achieved by these countries, the track record in implementing their commitments, and taking into account their preparatory work in progress, the Commission considers that these countries will have fulfilled the economic and *acquis* criteria and will be ready for membership from the beginning of 2004.

The Commission therefore recommends to conclude the accession negotiations with these countries by the end of this year. They will be referred to below as the ten acceding countries.

The Regular Reports point to a number of areas where further improvements need to be made in the context of the political and economic criteria and in relationship to the adoption, implementation and enforcement of the *acquis*. These should be vigorously pursued.

Bulgaria and Romania fulfil the political criteria but do not fully meet, to various extents, the economic and *acquis* criteria. Turkey does not fully meet the political, economic or *acquis* criteria. The political criteria for Turkey are assessed below.

### **3. COMPLETING THE PROCESS**

#### **3.1. Concluding the negotiations**

For all ten acceding countries, negotiations on both the chapters “agriculture” and “financial and budgetary matters” are not yet provisionally closed, although most issues in these chapters which are not linked to the financial framework to be proposed by the Union have been dealt with. Moreover, even if the chapters “regional policy” and “institutions” have been provisionally closed, specific questions linked respectively to the budgetary allocations and to institutional matters (transition rules in 2004; number of Parliamentarians and qualified majority threshold) have been reserved for the last stretch of negotiations. As to the chapter ‘other matters’, a number of issues still need to be considered. Furthermore, eight other chapters still need further negotiation: the chapters “competition” for five countries, “transport” for the Czech Republic, and “taxation” and “customs union” for Malta.

In the following, the Commission lays out its view on how to address some essential points for completing the negotiations.

##### *3.1.1. The financial framework*

In its information note of 30 January 2002, the Commission has proposed a common financial framework for the accession negotiations. This framework was based on the overall Berlin financial framework and on the assumption that ten new Member States would join the European Union. The Commission’s proposals remain valid. In particular, the Commission considers that:

- In the field of agriculture, the objective of gradually introducing direct payments for farmers in the new Member States from the year 2004 should be maintained.

- The structural actions should be based on a share of one third for the cohesion fund and be based on the overall volume proposed in January 2002. Once this overall envelope is agreed, the individual amounts per country and per policy will be determined on the basis of the percentages of the total allocation which has been determined following the methodology applied for current Member States for the period 2000-2006.
- As to internal policies, additional funds should be allocated for a transition facility for institution building and continuous decommissioning efforts for the Ignalina nuclear power plant in Lithuania and, in order to fully commit funds allocated under pre-accession assistance, for the Bohunice nuclear power plant in Slovakia.
- A temporary budgetary compensation, through a lump sum payment, should be envisaged for each new Member State which would find itself in a net budgetary position which is worse in comparison with its situation in the year before accession as beneficiary of pre-accession funds.
- The Commission reiterates the need to earmark additional funds for the northern part of Cyprus in order to back up a political settlement.

### 3.1.2. *How to deal with new *acquis* and the revisiting of chapters*

Acceding countries will be required to apply fully the *acquis* of the European Union in force by the date of accession, except in those areas where transitional arrangements will have been granted.

All the *acquis* adopted and published by the end of the first semester of 2002 has been transmitted by the Commission to the negotiating countries. The latter have been called upon to take a position on that *acquis*, including any possible need for transitional arrangements, and to communicate the technical adaptations that may be needed. Positions of the candidate countries on all new *acquis* transmitted so far have been taken into account in the negotiations. In some cases, such as recently for the chapter “environment”, positions taken by the candidates on new *acquis* can make it necessary to revisit a chapter.

In line with a practice followed in previous enlargements, it will not be possible to go beyond a certain point in time when considering new *acquis* in the negotiations. The Commission has proposed to limit the scope of the negotiations as such to all *acquis* adopted and published up until 1 November 2002. For the new *acquis* adopted between 1 July and 1 November 2002, such as in the field of telecommunications, negotiating countries are requested to transmit their positions as well as any necessary technical adaptations by mid November. This would allow to deal with any additional requests for transitional arrangements which might lead to possible revisiting of chapters in the negotiations in the second half of November.

The Accession Treaty will, as in previous enlargements, include provisions that will permit decisions on the necessary adaptations and temporary arrangements to the *acquis* adopted between 1 November 2002 and the date of signature of the Accession Treaty to be taken at a later stage, upon duly substantiated requests from the future Member

States.<sup>5</sup> Such provisions may be necessary in fields where important parts of the *acquis* are in the process of being adopted, such as transport, energy or Justice and Home Affairs.

### 3.1.3. *The chapter on “Other matters”*

The chapter on “other matters” will not be treated as the other negotiating chapters. It essentially constitutes a negotiating box in which a number of elements, which are largely uncontroversial but do not have their place in the other negotiating chapters, can be placed. The chapter “other matters”, which should be dealt with in early November, is likely to include the following elements :

- the rules applicable to the management and phasing out of pre-accession funds;
- the definition of the envisaged transition facility for certain institution building actions;
- the legal basis for the management of funds for the decommissioning of the nuclear power plants of Ignalina in Lithuania and Bohunice in Slovakia;
- a number of declarations, protocols and additional elements to be included in the Treaty, such as the closure commitments for the above-mentioned nuclear power plants ;
- a legal basis for the above mentioned facility for the northern part of Cyprus.

Further details on these elements are given in **Annex 2**.

## 3.2. **Finalising the Accession Treaty**

The Seville European Council stated that “drafting of the Treaty of Accession should continue so that it can be completed as soon as possible after the conclusion of the accession negotiations. It would seem reasonable to expect that the Treaty of Accession could be signed in spring 2003.”

The results of the accession negotiations in terms of transitional arrangements agreed and the technical adaptations to the *acquis* as a result of enlargement will be embodied in one legal instrument and its associated acts: the Accession Treaty. Work on the drafting of this Treaty formally started in March 2002 and is already well advanced. Most negotiated measures and necessary adaptations have already been incorporated in the draft Treaty. Taking the conclusions of the Laeken European Council as a point of departure, the Treaty is being drafted based on the assumption of an enlargement of ten new Member States, and following a structure very similar to that of the previous enlargement. Because of the technical adaptations necessary, the Treaty may have around 1000 pages in the Official Journal.

Once the negotiations are concluded, the drafting of the Treaty will need to be finalised in order to incorporate in it the final results of the negotiations. Taking into account the

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<sup>5</sup> See for example Articles 30, 151 and 169 of the Act concerning the conditions of Accession for Austria, Finland and Sweden.

advanced stage of the drafting process, it seems reasonable to expect that the Accession Treaty could be finalised no later than six weeks after the conclusion of the negotiations.

Once the text of the Treaty has been agreed by all parties to the negotiations, the Commission should adopt its Opinion on the applications for accession of the concerned countries. The European Parliament should then be asked to give its assent in accordance with Article 49 of the EU Treaty, followed by a decision of the Council on the admission of new Member States. Provided that the Commission can issue its Opinion in February 2003, and allowing sufficient time for the decision making process in Parliament and Council, the Accession Treaty can be expected to be signed in spring 2003, as foreseen by the Seville European Council. Thereafter, the Treaty, drawn up in all present and future Community languages, will be signed by the parties.

After signature, the Treaty will be submitted for ratification by the present and future Member States, in accordance with their respective constitutional requirements. The Accession Treaty should, as in the past, contain a date for the accession of the new Member States, provided that the necessary instruments of ratification are deposited, with the possibility to adjust relevant provisions if any of the acceding countries do not ratify.

### **3.3. Participation in the work of the Union before accession**

Candidate countries already participate in a number of Community committees and agencies<sup>6</sup>. In order to reinforce the gradual integration of acceding States into Community structures, these states should be given, after the signature of the Accession Treaty, the possibility to further participate, wherever legally possible, as observers in all committees set up by the comitology procedure and all other committees. The Commission, furthermore, considers that acceding States should also be able to participate at least as observers in the relevant structures of all Community agencies. The general principles and details of this participation will be defined at a later stage. In order to facilitate financing the costs of effective participation, each acceding State could, if it so wishes, reserve appropriate amounts in the envelope of its national pre-accession programme.

The European Parliament is equally planning to let observers from the candidate countries participate in the work of the Parliament.

There will also be a need to define the modalities of involving the acceding countries in the process of adopting new *acquis* during the period between the signature of the Accession Treaty and the date of accession. This has traditionally been done by an exchange of letters on the information and consultation procedure for acceding countries prior to decisions taken by the Council. The Council intends, as in past enlargements, to take appropriate decisions in order to allow the acceding countries to take part in the decision shaping process.

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<sup>6</sup> See Commission communication of 20.12.99 on "Participation of candidate countries in Community programmes, agencies and committees", COM (1999) 710 final

### 3.4. Monitoring and safeguards

The Commission has been closely monitoring how candidate countries are meeting their commitments made in the accession negotiations. It is highly important that the commitments undertaken by the future Member States in the framework of the accession negotiations be implemented as foreseen. In order to assess precisely this situation, the Commission will continue to monitor this closely until the signature of the Treaty and report on this to the Council on the basis of current procedures.

The Regular Reports identify areas where further efforts are required. The Commission will continue the monitoring process also between the signature of the Treaty and accession. This continuous monitoring, which will also include the monitoring of the implementation of the Action Plans, should be done through established channels such as the structures of the Association Agreements.

The Commission will, building on its present practice, signal any delays or problems in economic reform or the fulfilment of commitments, in particular through early warning letters at a political level.

Specific targeted actions such as high level groups in the field of food safety, or on the introduction of extended decentralisation as well as peer reviews, technical meetings, workshops, seminars and questionnaires will continue to be used in specific fields until accession.

For economic matters, candidate countries are continuing to prepare for EMU's multilateral surveillance and economic policy co-ordination. They are participating in the Pre-accession Fiscal Surveillance Procedure (PFSP) which has three components – the fiscal notification, the pre-accession economic programme and the multilateral dialogue. The PFSP has started in spring 2001 and will continue also until accession.

All relevant information resulting from these activities will be pulled together in monitoring reports presented regularly to the Council Six months before the accession date, the Commission will produce a **comprehensive Monitoring Report**, which will look at the advancement of the implementation of necessary reforms and all commitments in the field of the Community *acquis* by each of the acceding countries. This comprehensive Monitoring Report will be, for the ten acceding countries, a precursor of the Annual Report on the Monitoring of the Application of the Community Law, issued regularly by the Commission for all Member States<sup>7</sup> At the latest in July 2003, the Commission will assess the implementation of commitments necessary for the programming of structural funds.

After accession, the Commission, in its role as guardian of the treaties, will continue to check how the *acquis* is implemented by the new Member States, using the same mechanisms as those applied to the existing Member States. These include in particular benchmarking, peer pressure, annual reporting on implementation of Community law and the launching of infringement procedures with the European Court of Justice if necessary. In the specific area of nuclear safety, the Laeken European Council envisaged the need to monitor the security and safety of nuclear power stations in the Union.

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<sup>7</sup> See the "Nineteenth Annual Report on Monitoring the Application of the Community Law (2001) of 28.6.2002, COM (2002) 324 final.

The Accession Treaty will, as in the previous enlargement, contain a general economic safeguard clause. This clause is already being discussed in the Council drafting group of the Treaty on the basis of a text modelled on Art. 152 of the Act of Accession for Austria, Finland and Sweden. As the acceding countries do not form part of the European Economic Area, the Commission considers that the duration of the validity of the safeguard clause should be two years and not one year, as in the previous enlargement.

This general economic safeguard clause applies to situations where “difficulties arise which are serious and liable to persist in any sector of the economy or which could bring about serious deterioration in the economic situation of a given area”. The safeguard clause would allow the Commission to determine the necessary protective measures. Both, new and current Member States would be able to make use of this safeguard clause. The draft text, as in the previous enlargement, specifies that the protective measures “shall not entail frontier controls”.

The safeguard clause does not cater for situations, which, on the one hand, are due to failure to comply with accession obligations, and on the other hand, which may have serious non-economic consequences such as for the protection of health or life of humans, animals or plants, protection of intellectual property or general reasons of public policy as defined in Art 30 EC Treaty. For these cases, either Art. 30 of the EC Treaty applies, or specific safeguard clauses may have been introduced into specific sectoral legislation according to Art 95, para. 10 EC Treaty.

However, in a number of cases, the Community legislation either does not contain a safeguard clause or the safeguard clause does not cover the specific situations arising from enlargement. The Commission therefore considers that the Accession Treaty should as a precautionary measure envisage the introduction of a specific internal market related safeguard mechanism.

Such a mechanism could be based on the following elements:

- The mechanism should be implemented by the Commission on request of a Member State or on its own initiative.
- The Commission should be authorised to take the decisions on the necessary measures. The measures should be proportional and limited in time.
- The scope should be limited to a serious breach of the functioning of the internal market or an imminent risk of such breach and should also cater for particular situations in respect of food safety.
- The mechanism should be triggered where the Commission establishes a failure to meet the commitments made by the new Member States in the context of the accession negotiations.
- During the period of application of the measures, the new Member State concerned shall provide regular information to the Commission on steps taken to redress the breach. The measures should be lifted as soon as the Commission has determined that the breach has been redressed .

- The safeguard clause should only exist for a limited time span. The possibility to invoke the internal market safeguard mechanism should be limited to 2 years.

The comprehensive Monitoring Report will identify any areas where, in the absence of remedial action, such safeguard measures may be considered. This would also allow to give an early warning before membership. Moreover, until accession, the safeguard clauses under the Association Agreements will remain applicable.

In this context, the particular situation in the area of Justice and Home Affairs deserves a special mention. Unlike at the time of the last enlargement, there is now a considerable *acquis* in this area, and it is still evolving as the process of implementation of the Amsterdam Treaty and the Tampere European Council conclusions continues. It covers difficult and politically sensitive subjects, in particular where the freedom of movement of people and the consequences of the suppression of internal frontiers are concerned. As explained in paragraph 3.5.3 below, the implementation of these Schengen-based objectives is subject to a two-stage process, which eliminates the need for any separate safeguard mechanism. There are, however, other non-Schengen components in the area of freedom, security and justice (for instance regarding the implementation of judicial co-operation, in particular mutual recognition) where the monitoring process may indicate a need for a *sui generis* safeguard clause to address any serious breach or a threat of a serious breach in the functioning of this area, by e.g. providing for a temporary suspension of mutual recognition provisions.

### **3.5. After enlargement**

#### *3.5.1. Institution building*

The process of building up administrative and judicial capacity will need to continue after enlargement. A number of transitional arrangements agreed in the negotiations also demonstrate that in certain areas candidate countries need to continue efforts until they are in a position to apply fully the Community *acquis*. This is why the Commission has proposed to make available for the first three years after enlargement a special transition facility for institution building (see **Annex 2**).

The Commission proposes to continue to use in specific identified areas Community financed instruments which have proven their usefulness, such as twinning and twinning light. Moreover, mobilisation of experts from other Member States through such tried mechanisms as TAIEX will continue to be used in order to provide peer assistance. Furthermore, the Commission proposes to finance short-term placements of the new Member States' officials in the administrations of the EU 15. Additionally, the transition institution building facility could also be used to co-finance investments in the *acquis* in particular in such areas as border controls, customs administrations, statistics, food safety and integrated agricultural administration and control systems.

#### *3.5.2. EMU and the Euro*

In accordance with the EU Treaty, new Member States cannot immediately adopt the Euro upon accession. However, as for all Member States, economic policies become a matter of common concern and hence are subject to policy co-ordination and multilateral surveillance procedures. The main instruments for co-ordination are the Broad Economic Policy Guidelines, the Stability and Growth Pact and a number of processes which deal

with specific policy areas. The exchange rate policy becomes a matter of common interest. Participation in the Exchange Rate Mechanism II is expected some time after accession.

Participation in the euro area is the ultimate goal of new Member States. They will integrate, at that moment, into the single, stability-oriented monetary policy and the single exchange rate policy, in addition to the full application of the economic policy coordination and surveillance procedures. Until that time, the Treaty obliges Member States to pursue the high degree of sustainable convergence required for the adoption of the euro, but does not specify the timetable to attain this. Its attainment will depend on the economic characteristics of each country and its success in applying the policies geared to sustainable convergence.

### 3.5.3. *Schengen*

The Union has made clear that full application of the Schengen *acquis* necessitates a process in two stages. In the first stage, by the date of accession, acceding countries will need to have achieved a high level of border control, even though certain special arrangements such as shared infrastructure and equipment or joint patrols could be envisaged with other Member States. The lifting of internal border controls will only occur some time after accession and will be subject to a separate decision making process for each new Member State separately, based on the full implementation of the Schengen *acquis*.

### 3.5.4. *The European Economic Area*

The acceding countries will need to apply to join the European Economic Area (EEA), in accordance with Article 128 of the EEA Agreement. In order to ensure a smooth functioning of the extended EEA, accession of candidate countries to the EEA should take effect at the same time as accession to the EU. The EEA Agreement needs to be adapted to enlargement in accordance with the procedures stipulated in Article 128. The process of agreeing on the terms and conditions of membership of the EEA should start right after the conclusion of negotiations on accession to the EU in order to provide as far as possible for a simultaneous entry into force of the EU- and the EEA-membership.

## 4. A REVISED ACCESSION STRATEGY FOR BULGARIA AND ROMANIA

The Seville European Council encouraged Bulgaria and Romania to pursue their efforts and reiterated “its commitment to give them full support in their preparation for accession. An updated road map and a revised and enhanced pre-accession strategy should be adopted in Copenhagen for the candidate countries still engaged in negotiations. An increase in pre-accession financial aid could also be contemplated. Furthermore, if the current pace is maintained, a more precise timetable could be set for these countries' accession process by the end of the year”.

The criteria set by the Copenhagen and Madrid European Councils as well as the principles which have guided the accession process from the outset remain valid. All candidates participate on an equal footing and all are expected to join the European Union on the basis of the same criteria and depending on their individual progress. As

confirmed by the 2001 Laeken European Council, the accession process is now irreversible.

As the accession negotiations with all twelve negotiating candidate countries are an inclusive process, the Accession Treaty should acknowledge that the results reached in the negotiations with those candidates which will not join in the first round of enlargement will not be put into question.

#### **4.1. Progress to-date**

This year's Regular Reports show that Bulgaria and Romania have made further progress towards meeting the Copenhagen criteria. In order to successfully complete their preparations, they need to strengthen their efforts in meeting the economic criteria and in transposing, implementing and enforcing the *acquis*. They also need to continue the reform of public administration and the judiciary.

Bulgaria and Romania have made considerable progress in the negotiations. All negotiating chapters have now been opened with Bulgaria and almost all with Romania. With Bulgaria, the remaining chapters were opened in the first half of 2002 and with Romania it should be possible to open the last four chapters before the end of this year, thus fulfilling the Laeken European Council's objective to have all chapters opened with these two countries in 2002.

#### **4.2. Indicative date**

Bulgaria and Romania have set 2007 as their indicative date for accession. Negotiation chapters have been provisionally closed on the basis of this indicative accession date. 22 chapters have been provisionally closed with Bulgaria and 13 with Romania.

The time scales made for the implementation of negotiation commitments take account of this perspective. As in the past, progress towards the completion of the accession negotiations will reflect progress in the adoption, implementation and enforcement of the necessary measures in each country.

The Commission will strongly support the two countries in achieving this objective, which will continue to be guided by the principles of differentiation and own merits.

#### **4.3. Accession roadmaps**

As announced in its 2001 Enlargement Strategy Paper, the Commission will propose, on the basis of the analysis in the 2002 Regular Reports, detailed roadmaps for Bulgaria and Romania before the Copenhagen European Council. These roadmaps will cover the period up to accession and will be prepared on the basis of a close dialogue with each country.

The roadmaps will be based on the commitments made in the negotiations and on the requirements to fulfil the Copenhagen criteria. They will indicate the steps each country needs to take to be ready for membership, with particular emphasis on administrative and judicial capacity and on economic reform. The roadmaps will provide clear benchmarks against which commitments made in the course of the negotiations as well as progress with economic reform can be monitored. Progress in implementing the road maps will be

monitored in particular through the Europe Agreement structures and the Regular Reports.

#### **4.4. Pre-accession assistance**

The Commission will propose to revise next year the Accession Partnerships for Bulgaria and Romania in the light of the findings of the Regular Reports and the roadmaps. The Accession Partnerships will continue to be the basis for programming pre-accession assistance, but priorities for assistance will also be drawn from roadmaps, Regular Reports and revised National Development Plans. Phare assistance will continue to focus on strengthening public administration and the judiciary, institution building, investment related to the adoption of the *acquis* as well as economic and social cohesion and cross-border co-operation. Work on extending decentralised implementation systems should be accelerated. With regard to SAPARD, although it is already fully decentralised, the instrument will continue to prepare the candidate countries in terms of agricultural structures and rural development as well as strengthening the related institutional capacity. ISPA will continue to provide financial support to infrastructure investments in the field of environment and transport.

The Commission considers that financial assistance to Bulgaria and Romania should be increased considerably from the date of the first round of accessions, linked to progress in implementing the roadmaps and their absorption capacity..

### **5. A NEW IMPETUS TO THE ENLARGEMENT PROCESS WITH TURKEY**

The Seville European Council in June 2002 concluded that “new decisions could be taken in Copenhagen on the next stage of Turkey’s candidature” in the light of developments before the Copenhagen European Council, on the basis of the Commission’s Regular Report and in accordance with the Helsinki and Laeken conclusions.

The 2002 Regular Report makes a detailed analysis of Turkey’s progress in the pre-accession strategy over the past twelve months. Turkey’s progress is assessed by means of the same criteria and the same methodology as applied to all candidates. As with all candidates, and pursuant to the conclusions of the Copenhagen and Madrid European Councils, the report pays attention both to legislative changes and to Turkey’s administrative capacity to implement and enforce the *acquis* properly.

The Report shows that Turkey has moved forward in the three major areas covered by the Accession Partnership: the political, economic and *acquis* criteria established by the Copenhagen European Council in 1993.

Turkey has made noticeable progress towards meeting the Copenhagen political criteria. Through constitutional reform, and a series of legislative packages, Turkey has addressed several of the key priorities specified in the Accession Partnership. The legal changes adopted by Parliament in August 2002 are particularly welcome as they show a willingness to introduce far-reaching reforms. The death penalty has been lifted except in case of war and important steps have been taken to permit broadcasting and education in languages other than Turkish. The lifting of the state of emergency in two of the four provinces where it had applied, and the undertaking to lift it, this year, in the two

provinces where it still applies should open the way to greater protection of human rights.

The Commission welcomes these developments and recognises the break-through they represent in the Turkish political context. In addition, the reforms were adopted in particularly difficult circumstances. These reforms are promising for the future as they demonstrate the will and the capacity of the Turkish political system to make progress even in areas hitherto regarded as highly sensitive.

Nonetheless, Turkey does not fully meet the political criteria. First, the reforms contain a number of significant limitations, which are set out in the Regular Report, on the full enjoyment of fundamental rights and freedoms. Secondly, many of the reforms require the adoption of regulations or other administrative measures and, to be effective, will need to be implemented in practice by executive and judicial bodies at different levels throughout the country. Thirdly, a number of important issues arising under the political criteria have yet to be adequately addressed. These include the fight against torture and ill-treatment, certain questions concerning civilian control of the military, and the situation of persons imprisoned for expressing non-violent opinions and in compliance with the decision of the European Council of Human Rights..

In the light of the considerable progress made in recent years and of the remaining areas requiring further attention, Turkey is encouraged to pursue the reform process to strengthen democracy and the protection of human rights, in law and in practice. This should enable Turkey to tackle the remaining obstacles to full compliance with the political criteria.

The Commission recalls that efforts to resolve the Cyprus problem form part of the enhanced political dialogue between the European Union and Turkey. Noting the statements issued by the United Nations Security Council, following reports by the UN Secretary General's Special Adviser for Cyprus, Mr. Alvaro de Soto, the Commission urges all parties concerned and particularly, in the present context, Turkey, to lend full support to the efforts of the United Nations to achieve a comprehensive settlement of the Cyprus problem this year.

With respect to the economic criteria, Turkey has made progress in the functioning of its market economy, which should improve its capacity to cope with competitive pressure, but is still undergoing the consequences of recession and financial crises.

With respect to the *acquis* criteria, Turkey has made progress in aligning legislation in the areas covered by the customs union and a number of other sectors, such as banking, telecommunications, energy and agriculture. The financial sector has been restructured and administrative capacity in this field has been streamlined. In most other areas there remain major differences between the *acquis* and Turkish legislation.

The outstanding issues as regards the modalities for participation by Turkey in the decision making process as regards EU-led operations using NATO assets need to be resolved as a matter of priority.

## 5.1. Strengthening the Pre-Accession Strategy

The Helsinki European Council set out the pre-accession strategy for Turkey in 1999. The Laeken European Council endorsed a new phase of this strategy last year. Since then, substantial progress has been made in its implementation.

Against this background, the Commission recommends that the European Union should enhance its support for Turkey's pre-accession preparations, in view of the next stage of its candidature. More detailed recommendations are given below as to how this objective can be achieved.

- The *Accession Partnership* has proved to be a valuable instrument in the pre-accession strategy. It should be updated and revised to focus clearly on areas where priority action is still needed.
- The *enhanced political dialogue* between the EU and Turkey covers political reforms, human rights, the Cyprus issue and the matter of the peaceful settlement of border disputes, and will be pursued intensively. There is a need for detailed discussions on the various initiatives taken by Turkey to meet the Copenhagen political criteria. New ways will be sought to ensure improved understanding of the reforms and other issues requiring attention.
- The enhanced economic dialogue between the EU and Turkey covers issues of macroeconomic performance and stability and economic reforms, and will be pursued intensively. The various measures taken by Turkey to restore economic stability and to meet the Copenhagen economic criteria have to be discussed in detail.
- The process of *legislative scrutiny*, focusing on precise sector issues, supplemented by TAIEX assistance, is well underway and will be further developed. This process guides Turkey in the requirements for transposition of the *acquis*, including administrative capacity and enforcement.
- Additional efforts are being made to reinforce and extend the scope of the *customs union* to cover services and public procurement, as well as removing obstacles to the free circulation of goods. This will have an impact on the wider work to be undertaken by Turkey in accordance with its candidate country status.
- The deepening of *trade relations* with Turkey, both on a bilateral basis and in relations with third countries, should be pursued. For example, preferential market access for EC-Turkey trade in agricultural products could be extended on a reciprocal basis; this should be accompanied by greater co-operation on veterinary and phytosanitary matters. In negotiating trade agreements with third countries, the EU will step up efforts to ensure that such countries agree similar arrangements with Turkey. The dialogue between the EU and Turkey on trade issues should be enhanced and the use of trade defence instruments kept under review.
- In order to stimulate *investment* flows, a further liberalisation of foreign direct investment between the EU and Turkey should be pursued.

- Co-operation with Turkey should be reinforced in the area of *Justice and Home Affairs*, including illegal immigration and adoption and implementation of the Schengen *acquis*, as well as the free movement of persons, and maritime safety.
- Turkey will participate in a number of *Community programmes and agencies*.
- The new *financial management* system has begun to bear fruit. The substantial backlog in commitments of EU finance for Turkey is now being cleared. The pre-accession driven approach in the financial assistance programmes is being fully implemented. From 2003 greater responsibility will be passed to the Turkish authorities for the implementation of these programmes.

The Commission will take the necessary initiatives to put this strengthened pre-accession strategy into place. The Commission will put forward a revised Accession Partnership, taking account of progress made and the areas where further efforts are needed. Progress will be discussed in appropriate fora, such as the EC-Turkey Association Committee and in the Customs Union Joint Committee.

It is therefore necessary to increase the availability of financial assistance to Turkey, bearing in mind Turkey's specific needs and capacity to absorb such funds.

## **5.2. Additional financial support**

In order to help accelerate the implementation of Turkey's pre-accession strategy, increased financial assistance will be provided from 2004. This increase is intended to enable Turkey to strengthen its public administration, support the adoption of the *acquis*, and to facilitate Turkey's integration into the European economy.

Pre-accession assistance will focus on helping Turkey meet the Copenhagen criteria, and in particular on strengthening public administration at all levels, institution building, and investment related to the adoption of the *acquis*. Assistance will also be available for improving the functioning of Turkey's economy and its capacity to cope with competitive pressure within the internal market. Cross-border cooperation with existing EU Member States and other candidate countries will also be promoted. Priorities for assistance will be drawn from the Accession Partnership and the Regular Reports.

In order to facilitate the full devolution of implementation, Turkey will need to take further measures to ensure sound financial control.

Capacity building for Turkey's public administration will be matched by resources for investment in regulatory infrastructure, *acquis*-related investment and economic and social cohesion. Turkey will be asked to prepare a National Development Plan to guide the commitment of resources to addressing economic and social cohesion issues.

The Commission will put forward early next year a revised Accession Partnership for Turkey based on priorities emerging from this year's Regular Reports. In this context, the Commission will propose to the budgetary authority that grant assistance to Turkey should be allocated under heading 7 of the financial perspectives 2000-2006 and should be steadily increased in the period from 2004 to 2006. The size of annual allocations will be linked to performance in meeting the Copenhagen criteria and in the effective

management of pre-accession assistance. It can be expected that total assistance could at least double by 2006, taking into account Turkey's needs and absorptive capacity

## 6. CONCLUSIONS AND RECOMMENDATIONS

In the light of the above, the European Commission's conclusions and recommendations are the following:

- (1) This year's Regular Reports show that all candidate countries have made considerable progress over the last year in implementing the accession criteria.
- (2) Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia fulfil the political criteria. Bearing in mind the progress achieved by these countries, the track record in implementing their commitments, and taking into account their preparatory work in progress and foreseen, the Commission considers that these countries will have fulfilled the economic and *acquis* criteria and will be ready for membership from the beginning of 2004. The Commission therefore recommends to conclude the accession negotiations with these countries by the end of this year with the aim to sign the Accession Treaty in spring 2003.
- (3) The Commission hopes to see a re-united Cyprus acceding to the European Union on the basis of a comprehensive settlement, as the best outcome for all concerned. As indicated in the conclusions of the Seville European Council, the EU is ready to accommodate the terms of a political settlement in the accession arrangements in line with the principles on which the European Union is founded. The Commission welcomes that substantial UN involvement will continue and urges all parties concerned and, in particular Turkey, to lend full support to efforts to reach a comprehensive settlement this year. Cyprus' terms of accession can be adapted to reflect the comprehensive settlement as well as its implications for the application of the *acquis* throughout the island. The Commission has proposed that considerable resources should be made available to support the northern part of the island to catch up and to back up a settlement. In the absence of a settlement, the decisions to be taken in December by the Copenhagen European Council will be based on the conclusions of the Helsinki European Council .
- (4) Acceding countries need to implement the *acquis* by the date of accession, except in cases where transitional arrangements have been agreed. Commitments undertaken in the negotiations must be fully met before accession. The Regular Reports point to a number of areas where further improvements need to be made in the context of the political and economic criteria and in relationship to the adoption, implementation and enforcement of the *acquis*. These should be vigorously pursued. In order to analyse progress and to facilitate successful membership of the European Union, the Commission will regularly monitor this and report to Council. The Commission will produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European Parliament. The Commission considers that a specific safeguard clause needs to be introduced in the Accession Treaty. This clause should allow the Commission for a limited period of time to take appropriate measures in the internal market field.

- (5) Conclusion of negotiations requires that the necessary solutions be found to the remaining open questions in the negotiations. As to the financial offer of the Union, such solution should be based on the financial framework for negotiations put forward by the Commission on 30 January 2002 and the principles contained therein.
- (6) Bulgaria and Romania have set 2007 as their indicative date for accession. The Commission will strongly support the two countries in achieving this objective, which will continue to be guided by the principles of differentiation and own merits. The Commission will propose, on the basis of the analysis in the 2002 Regular Reports, detailed roadmaps for Bulgaria and Romania before the Copenhagen European Council. In order to prepare Bulgaria and Romania for membership in the European Union, an increased focus will be put on judicial and administrative reform. Furthermore, pre-accession assistance provided to Bulgaria and Romania should be increased considerably from the date of the first round of accessions, linked to progress in implementing the roadmaps. As the accession negotiations with all twelve negotiating candidate countries are an inclusive process, the Accession Treaty should acknowledge that the results reached in the negotiations with those candidates which will not join in the first round of enlargement will not be put into question.
- (7) Through constitutional reform and a series of legislative packages Turkey has made noticeable progress towards meeting the Copenhagen political criteria, as well as moving forward on the economic criteria and alignment with the *acquis*. Nonetheless, considerable further efforts are needed. Against this background and in view of the next stage of its candidature, the Commission recommends that the EU should enhance its support for Turkey's pre-accession preparations and should provide significant additional resources for this purpose. The Commission will propose a revised Accession Partnership and intensify the process of legislative scrutiny. It recommends renewed efforts to extend the Customs Union and improve its functioning, with a view to deepening EC - Turkey trade relations and increasing investment flows. Turkey is encouraged to pursue its reform process and thus to carry forward its candidature for EU membership.

## ANNEX 1: CONCLUSIONS OF THE REGULAR REPORTS

### Bulgaria

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

Significant progress has been made on the judicial reform strategy with the adoption of an Action Plan and major amendments to the Law on the Judicial System. These need now to be implemented in order to translate them into concrete improvements in the functioning of the system. Issues relating to the structure of the judicial system and immunity still need to be addressed.

There have also been positive further developments in the fight against corruption, which remains a cause for serious concern, with *inter alia* the adoption of an action plan to implement the National Anti-Corruption Strategy. Whilst the need to tackle corruption is now high on the agenda Bulgaria needs to continue to make concerted efforts to implement the measures.

There has been some further progress on public administration reform with revisions to the legislative framework and the adoption of a Strategy for Modernisation of the State Administration but serious efforts are now required to develop and implement reforms to ensure an efficient, transparent and accountable public administration.

Bulgaria continues to respect human rights and freedoms. Bulgaria has considerably improved the legal framework, for tackling trafficking, corruption and organised crime as well as for asylum. However, there are a number of areas which continue to give cause for concern. A new issue that has been identified is the very poor living conditions of people in institutions, in particular the mentally handicapped. This needs to be addressed urgently. Bulgaria also needs to strengthen its efforts to reform the child care system, to make sure that the best interests of the child are reflected and reduce the number of children in institutions. Poor conditions for detainees in particular in police stations and pre-trial detention also need to be addressed.

The recent changes to the Penal Code are an important step in removing discrimination on the grounds of sexual orientation.

Concerning the Roma community, little has been done to remedy problems of social discrimination or to take concrete action to improve very poor living conditions. The adoption of comprehensive anti-discrimination legislation would be an important step forward in this regard.

Bulgaria is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that it continues implementing its reform programme to remove remaining difficulties.

Bulgaria has achieved a high degree of macroeconomic stability and market mechanisms are now working sufficiently to allow for a better allocation of resources. Good progress has been made in structural reforms, especially as regards procedures for market entry, the restructuring of the financial sector and privatisation, thus setting the microeconomic basis for a process of sustained growth.

However, further efforts are needed to improve the flexibility of markets. In particular, the efficiency of the administrative and judicial system has to be reinforced, to allow economic agents to make decisions in a climate of stability and predictability. Administrative procedures affecting the enterprise sector, including bankruptcy procedures, must be streamlined. The level of financial intermediation continues to be low. Specific deficiencies remaining in the land market affect the performance of this market and of related economic sectors. An implementation of these reform measures should contribute to higher levels of private and public investment which are key requirements for sustained growth and sufficient competitiveness within the Union.

Since the Opinion in 1997, Bulgaria has made good progress in most areas of the *acquis*. It has maintained a generally good pace of alignment of legislation throughout this period and has advanced on development of administrative capacity albeit at a slower pace.

Over the past year, Bulgaria has continued to progress in terms of legal alignment and administrative capacity, with an acceleration of efforts on judicial reform.

Overall, and in view of Bulgaria's target date for accession, Bulgaria has achieved a reasonable degree of alignment with the *acquis* in many areas. Administrative capacity has also developed, although significant further efforts remain to be made. More attention needs to be paid to how laws will be implemented and enforced. In this regard, progress on public administration and judicial reform needs to be sustained.

Regarding the *internal market*, Bulgaria has made further progress in most areas. In *free movement of goods*, progress continued with amendments to the Law on Standardisation, which remove conflicts of interest between standardisation and regulatory functions and/or certification. Considerable efforts are still needed to reinforce administrative infrastructure for standardisation and certification and to systems for national conformity assessment and market surveillance. The new Public Procurement Act is a further step towards implementation of the *acquis*, but is not yet fully aligned. This and enforcement, in line with the principles of the *acquis*, needs to be ensured. As regards food safety, a considerable amount of legislation has been transposed but efforts need to be pursued to ensure proper implementation and enforcement of the *acquis*. Reinforcement of administrative capacity is still needed, notable laboratory upgrading and accreditation. On the *freedom to provide services*, Bulgaria has developed sound banking supervision practices. It has made good progress in implementing the banking *acquis* but is less advanced in the field of insurance and securities. The establishment of the Consultative Council for Financial Sector Supervision is a further step in the right direction. Bulgaria has made progress on legal alignment with the *acquis* on data protection but needs to ensure full alignment with the *acquis* and take steps to put administrative capacity in place to implement and enforce this.

*Company law* has been further aligned but still needs to be brought fully into line with elements of the *acquis*, especially on acquisitions, mergers and divisions of companies. On the legal framework for protecting intellectual and industrial property rights (IPR),

there have been further improvements but steps need to be taken to ensure this is enforced at borders and that law enforcement bodies and the judiciary are trained to handle IPR matters. On *competition policy*, important progress has been made with the entry into force of the Law on State Aid. Further efforts are now needed to develop a credible state aid enforcement record. On anti-trust, Bulgarian legislation is largely in line with the *acquis*. Bulgaria needs to continue to build a record of effective application and enforcement of rules. The restructuring of the steel sector will need to be closely monitored.

For *customs* and *taxation*, Bulgaria still needs to develop IT systems that allow for exchange of data with the EC. As regards strengthening of administrative capacity, in customs, implementation of reforms is progressing, but there has been limited progress in the reform of tax administration.

Bulgaria has progressed in aligning with the *telecommunications acquis*. Efforts should focus on completing transposition, speeding up effective implementation, and enhancing the capacity of the regulator.

In *agriculture*, approximation of legislation in the veterinary and phytosanitary sectors has progressed well. Further efforts are still necessary in the transposition of the *acquis*. However, substantial efforts will be necessary to develop the necessary administrative, inspection and control mechanisms, in particular to ensure enforcement of veterinary/hygiene control standards. Progress on *fisheries* has continued, but Bulgaria needs to take further measures to ensure full compliance with EC hygiene and health requirements.

On *social policy and employment*, some progress has been made. But considerable further work remains on legal transposition in the areas of labour law, equal opportunities, anti-discrimination and health and safety at work. Social dialogue in line with EC practice needs to be fostered.

Concerning *regional policy*, Bulgaria has made progress in preparing for the implementation of structural policies with the adoption of a strategy for structural funds, which clarifies the institutional structure for structural and cohesion fund assistance. Bulgaria needs to focus efforts on strengthening capacity for future implementation of structural funds in key ministries, including appropriate control, monitoring and evaluation mechanisms. Bulgaria still needs to prepare a coherent development plan as required by the structural funds regulations and integrate it into the national budgetary and policy-making framework.

Bulgaria has continued to transpose the *environmental acquis* with the adoption of the Environmental Protection Act. Efforts are needed to prepare directive-specific implementation plans and financing strategies, on environmental investments, and to further elaborate mechanisms to monitor effective implementation. Implementation remains a major challenge as is the need for increased administrative capacity and the cost of alignment.

Bulgaria has continued to make progress in aligning *transport* legislation with the *acquis*, notably in the road transport and the railway sectors. The newly-established administrative structures need to be strengthened. For maritime transport, the poor safety record of the Bulgarian fleet remains a cause for concern.

Bulgaria has stepped up progress in reforming the *energy* sector where restructuring had been slow in previous years. A new national energy strategy was adopted. The legislative basis for market opening has been created and privatisation of the distribution companies is under preparation. Bulgaria now needs to set clear timetables for restructuring of the energy sector. Bulgaria must respect closure commitments for Kozloduy NPP and ensure a high level of nuclear safety.

In *justice and home affairs*, Bulgaria made good progress in aligning with the *acquis* in most areas. It has adopted an action plan for the adoption of Schengen requirements. However, a major effort is still needed in order to strengthen implementation capacity.

Substantial progress has been made in strengthening *financial control* with the entry into force of the new laws on Public Internal Financial Control and the National Audit Office. Bulgaria should focus now on strengthening the required institutional structures, including for the protection of the EC financial interests.

Bulgaria still needs to make sustained efforts to develop sufficient administrative and judicial capacity to implement and enforce the *acquis*. As well as continuing horizontal reform of the public administration, it needs to focus in particular on developing the capacity to be part of the internal market and to apply the *acquis* in areas such as agriculture, environment and regional policy. Further efforts are also required to establish the necessary administrative capacity to ensure the sound and efficient management of EC funds.

In the accession negotiations, 22 chapters have been provisionally closed. The commitments made in the negotiations are with a view to accession from 2007 and are generally being met by Bulgaria.

## **Cyprus**

The Commission has repeatedly concluded that Cyprus fulfils the political criteria. This was the conclusion of previous Regular Reports, and has been confirmed over the past year. Cyprus continues to fulfil the Copenhagen political criteria.

The state public administration has been considerably strengthened by the creation of new posts and the promotion of regular training.

Cyprus continues to respect human rights and freedoms. Cyprus has improved the procedure for the protection of refugees. It has abolished restrictions on the right to marry for Turkish Cypriots living in the south.

Cyprus is a functioning market economy and it should be able to cope with competitive pressure and market forces within the Union.

The first 1998 Regular Report already acknowledged the economic reform efforts undertaken by the Cypriot authorities to prepare for EU accession. Since then, the Cypriot authorities' commitment to the economic requirements of EU accession has been sustained.

Further improvements can be made to the functioning of markets by keeping to plans to liberalise the telecom, energy, air transport and postal services sectors. Adherence to the

fiscal consolidation programme will contribute to reducing the current account deficit. Care must be taken to improve co-ordination of the supervision of co-operative financial institutions and banks.

Since the 1998 Regular Report, Cyprus has made substantial progress in the different areas of the *acquis*. The legislative alignment process has accelerated in recent years. Cyprus has continued to pay attention to implementation and enforcement structures.

Over the past year, Cyprus has further advanced with legislative alignment and has improved its position in relation to administrative capacity, in particular in the fields of social insurance, veterinary and phytosanitary inspections, pharmaceutical services, combating money laundering, ship inspection, inland revenue, planning, environmental services, consumer and health protection, and customs.

Overall, Cyprus has achieved a good degree of alignment with the *acquis* in most areas and is advanced towards reaching adequate administrative capacity to implement the *acquis* in a considerable number of fields, although further efforts remain to be made. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

There has been significant progress in the different areas of the internal market. As regards *free movement of goods* approximation has been completed in a number of sector-specific areas. The adoption of the framework legislation on the New and Global Approach principle, following an initial delay, has allowed substantial legislative progress and constituted an important step towards further alignment with the *acquis*. In the field of public procurement full alignment has not yet been achieved. Furthermore, efforts are still required for transposition of the *acquis* relating to the notification procedure, market surveillance and product safety. The newly established Company for Certification has reinforced the infrastructure for standardisation and certification, whereas Cyprus has to continue efforts to enhance its market surveillance systems. In the field of *free movement of persons* Cyprus has taken a major step by adopting the framework legislation on the recognition of professional qualifications. It has abolished inconsistencies as regards the co-ordination of social security systems and has reached a good level of administrative capacity. On *freedom to provide services* good progress can be reported in terms of harmonisation, in particular with legislation on insurance companies and banks, including offshore banks. Enhancement of administrative capacity should particularly continue as regards supervisory authorities in the field of financial services. The liberalisation of *capital movement* is on course to achieve full alignment by accession. Although the administrative capacity for combating money laundering has been further enhanced through the recruitment of additional personnel, Cyprus must continue sustained efforts in this domain.

As regards *company law*, Cyprus's legislative alignment with the *acquis* is at an advanced stage. With respect to intellectual and industrial property rights, further efforts are required to strengthen enforcement capacity in relation to border controls, combating piracy and counterfeiting. In the field of *competition* steady progress has been made in adopting anti-trust and state aid legislation. A substantial improvement in state-aid and in anti-trust enforcement is evident after years of standstill. The State aid monitoring authority and the fully independent authority for the protection of competition function well, but should be developed further.

Cyprus has reached a good level of legislative alignment in the field of *agriculture* and has taken significant steps as regards the establishment of the Common Market Organisations. However, the administrative capacity to implement and enforce the *acquis* needs to be further strengthened in this field. Due priority should be given to the preparation of the Integrated Administration and Control System. In the area of *fisheries*, legislation has been aligned to a reasonable extent. Administrative capacity is in place but needs to be further reinforced. Cyprus has continued its efforts to further reduce the number of fishing vessels under its flag, but its Fishing Vessel Register has not yet become fully operational. However, the relevant infrastructure for the establishment of the register has been introduced and the implementation mechanisms are under way.

The comprehensive tax reform, concerning both indirect and direct taxation, has moved Cyprus significantly forward in the field of *taxation*. Cyprus has also made important progress with developing the necessary administrative capacity and has reached an adequate level in this respect. Cyprus can also rely on a well-organised and well functioning *customs* administration. Further legislative alignment is needed concerning inward and outward processing, temporary importation, cultural goods, and procedural aspects. The adoption of the pending and outstanding legislation in this area is urgently required in order to achieve this alignment.

Cyprus needs to focus on full liberalisation of the telecommunications markets, speeding up the implementation of the *acquis*, and the establishment of the regulator's office

As regards *Economic and Monetary Union* good progress can be reported, as the Central Bank has now become independent.

Legislation in the *transport* sector is largely in line with the *acquis*, but some legislation, in particular regarding aviation, remains to be transposed. Safety matters have been particularly improved by legislative alignment and strengthened administrative capacities. Efforts in the area of maritime transport need to be continued.

As regards *social policy and employment*, Cyprus has achieved substantial progress. Alignment with the legislative *acquis* needs to be completed in a few areas. There is still a strong need to enhance administrative capacity.

Progress has been made at a moderate pace in the field of *energy*. As regards alignment with the internal energy market *acquis* and the security of supplies and oil stocks, Cyprus has advanced only in a limited manner. Cyprus is strongly encouraged to ensure the progressive building up of oil stocks and the relevant authority according to the agreed timetable. Ongoing legislative work in order to align with the internal energy market *acquis* and to establish the oil stocks authority should be continued without delay, as should efforts to ensure the necessary oil stocks storage capacity.

Cyprus has continued the integration of the *environment* into other policies and has achieved a considerable alignment with the *acquis* in the various sectors of environmental and nature protection. However, measures need to be adopted in the important fields of air and water quality, industrial pollution control, chemicals, and genetically modified organisms. Particular attention should be paid to waste management and to enhancing administrative capacity. Investment needs to be secured in the medium term to ensure implementation of the environmental *acquis*.

Concerning *justice and home affairs* good progress in the fields of visa policy, asylum, the fight against organised crime and corruption can be reported. On asylum, alignment has been accelerated and an independent review authority has been established. Concerning the Schengen *acquis*, Cyprus is continuing its preparations by fully implementing the existing Schengen Action Plan and by developing the National information system. Cyprus has ratified various conventions with respect to data protection, the fight against terrorism, and proceeds from crime. In general, administrative capacity has still to be further strengthened in this area.

As regards *regional policy*, Cyprus has continued to make important progress in aligning with the *acquis* preparing for participation in structural instruments. Cyprus is also well advanced with respect to administrative structures.

Cyprus has achieved further progress in the field of *financial control*. Its Public Internal Financial Control system is well developed and international audit standards are largely met. Efforts should be undertaken as to strengthening the administrative capacity of the Treasury.

Cyprus has further strengthened its *administrative capacity*. Additional staff has been recruited in key areas and has been included in the Supplementary Budget for 2002, which is not yet approved. In important areas such as capital movement, competition, agriculture, taxation, customs, environment, and justice and home affairs enforcement structures have been reinforced. Close attention is required as regards the structures which are necessary to implement the *acquis* which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds.

In the accession negotiations, 28 chapters have been provisionally closed. Cyprus is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to the establishment of the fishing vessel register, and in the legal alignment as regards oil stocks and with the electricity Directive. These issues need to be addressed.

Bearing in mind the progress achieved since the 1998 Regular Report, the level of alignment that Cyprus has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Cyprus will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading to accession, Cyprus needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

### **The Czech Republic**

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

The government has taken further steps to improve the functioning of the central administration. In particular, it has adopted a Civil Service Act which establishes a legal

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

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

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

The Czech Republic continues to respect human rights and freedoms.

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

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

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

Hence, it is concluded that the Czech Republic is a functioning market economy. The continuation of its current reform path should enable the Czech Republic to cope with competitive pressure and market forces within the Union.

Improvements can be made as regards the management of public finance, in particular by addressing the high and rising mandatory and quasi-mandatory government expenditures. Reforms of social expenditure, such as pension and health care schemes, must be pursued. Furthermore, a more decisive approach towards selling off bad assets of the

Czech Consolidation Agency to private investors would free the economy of misallocated resources.

Since the Opinion, the Czech Republic has made very good progress. Whilst the pace of legislative alignment was slow in the initial period, subsequently there was a significant acceleration. In recent years there has also been steady progress in building up administrative capacity to implement the *acquis*, together with the reform of the judicial system.

Over the past year, the Czech Republic has further advanced legislative alignment, in particular as regards financial services, phytosanitary legislation, road transport, social policy, environment and justice and home affairs. However, limited further progress has been made in the field of taxation. Efforts have continued to strengthen administrative capacity, including the adoption of a legal framework for the public administration.

Overall, the Czech Republic has achieved a high degree of alignment with the *acquis* in many areas and is well advanced towards reaching adequate administrative capacity to implement the *acquis*, although further efforts remain to be made. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

In the field of the internal market, transposition of the *acquis* is well advanced as regards the four freedoms and efforts should focus on filling in the remaining gaps. Administrative capacity is generally good. On the *free movement of goods*, the Czech Republic now implements almost all harmonised European standards, including those on foodstuffs; however, market surveillance capacity will need to be further increased. Alignment with the public procurement *acquis* should be completed, building on the welcome progress achieved recently. On the *free movement of persons*, alignment is high on citizens' rights and free movement of workers, but further work is urgently needed on the mutual recognition of professional qualifications. On the *free movement of services*, transposition of the banking *acquis* has advanced well, whilst alignment needs to be completed as regards other financial sectors. Supervision of the financial sector should be further improved. On the *free movement of capital*, there has been good recent progress on removing restrictions on acquisition of real estate as well as on the regulation of cross-border credit transfers. Administrative capacity to fight money laundering should be further reinforced.

As regards *company law*, there is a high degree of alignment with the *acquis* although as regards enforcement of intellectual property rights, further improvement is required, including tackling pirated and counterfeited goods. Concerning *competition*, legislation is largely in line with the *acquis* and the Office for the Protection of Competition has developed a satisfactory track record of enforcement on anti-trust as well as state aids. The state aid enforcement and restructuring of the steel sector will need to be closely monitored. In the area of banking, increased transparency is needed.

As regards economic and fiscal matters, a high level of alignment has been achieved with the *acquis* on *economic and monetary union*, with significant recent progress as regards the independence of the central bank. A good level of alignment has been reached on *taxation*, but this needs to be completed in important areas of VAT and excise. Continued progress is necessary to develop information technology systems for the exchange of electronic data with the Community and its Member States. Ongoing

efforts to strengthen administrative capacity in this area should be vigorously pursued. A high level of compatibility has been achieved with the *customs acquis*. It is necessary to finalise the work on computerisation and full interconnection of national systems with EC customs information technology systems.

Sectoral policies have reached an overall good level of alignment with the *acquis* and administrative capacity is generally satisfactory. As regards *transport*, road and air legislation is largely in line with the *acquis* but further efforts are needed as regards the railways. Sufficient administrative capacity to enforce the *acquis* remains to be ensured. In the *energy* sector, there is a good level of alignment, in particular on establishing a competitive electricity market. Full and timely implementation of legislation now needs to be ensured. The Czech Republic has accepted and is addressing all recommendations of the Council report on Nuclear Safety in the Context of Enlargement.

In the field of *agriculture*, the overall level of preparation is good, in particular as regards the implementing structures for the Common Agricultural Policy and alignment with phytosanitary legislation. Continued efforts are needed to complete alignment and strengthen inspection arrangements in the veterinary field.

In the area of economic and social cohesion, as regards *social policy and employment*, alignment is well advanced, in particular on labour law and health and safety at work. Administrative capacity with regard to occupational health and safety, in particular the labour inspectorates, needs further reinforcement. In *regional policy*, over the last year important progress has been made so that the legal framework is largely in place. Efforts need to continue to render the implementing and control structures fully operational and as regards the technical preparation of projects eligible for Community funding.

Concerning the *environment*, the Czech Republic has achieved a high level of legislative alignment and significant investments have produced notable results, particularly as regards air and water quality. Continued efforts are needed to finalise transposition and implementation in the areas of water quality, waste, nature protection and industrial pollution prevention. Also, administrative capacity at local and regional levels needs to be ensured and long term financial investments need to be planned.

On *telecommunications*, the Czech Republic has made further recent progress and has achieved a good level of alignment concerning the development of the telecommunications infrastructure and diversification of the market. However, full market liberalisation remains to be achieved and the independence of the regulatory authority needs to be ensured.

As regards the *audio-visual sector*, the Czech Republic is well advanced in terms of legislative alignment. However, effective implementation will require strengthening of administrative capacity. It remains particularly important to establish and supervise effectively a transparent and predictable regulatory framework in the audio-visual sector.

Concerning *justice and home affairs*, notable progress has been made in almost all areas and legislative alignment is almost complete. Continued efforts should be made to ensure further upgrading of border management and the implementation of the Schengen Action Plan as well as strengthening the fight against fraud, corruption and organised crime.

Regarding financial questions, in the field of *financial control* legislative alignment is completed but further substantial efforts are required to ensure full implementation of public internal financial control. Overall, the administrative capacity of the Czech Republic has been strengthened considerably. Efforts need to be pursued in particular as regards agriculture, the environment, regional policy, justice and home affairs as well as financial control. Special attention should be given to the structures necessary to ensure sound and efficient management of EC funds. Currently ongoing activities, notably the strengthening of the internal audit units through increasing human resources and training, need to be vigorously pursued in order to attain full operational capacity by accession.

In the accession negotiations, 25 chapters have been provisionally closed. The Czech Republic is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to the full alignment of public procurement legislation, completion of alignment regarding mutual recognition of professional qualifications, adoption of parts of veterinary legislation, and the completion of alignment of certain VAT and excise duties. These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that the Czech Republic has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that the Czech Republic will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, the Czech Republic needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

### **Estonia**

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

Implementation of the public administration reform programme has continued, and the functioning of the Estonian civil service and its administrative procedures continue to be satisfactory. There remains a need to continue to improve transparency in personnel matters and coordination across different bodies.

Judicial modernisation has progressed well and the independence and administration of the judiciary have been enhanced. Improvements in the training of judges have continued and court information systems have been upgraded. Estonia should make efforts to fill vacant prosecutors posts. As noted last year, Estonia needs to continue to increase efficiency in dealing with court cases as well as the quality and enforcement of court decisions.

Estonia continues to respect human rights and freedoms.

Estonia has encouraged the further integration of non-citizens by removing language requirements for candidates in parliamentary and local elections and by supporting language learning and cultural exchanges through the state integration programme. Estonia should continue efforts to increase the rate of naturalisation and to facilitate the

process. Estonia should ensure that the implementation of language legislation continues to respect the principles of justified public interest and proportionality, Estonia's international obligations and the Europe Agreement.

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

Hence, it is concluded that Estonia is a functioning market economy. The continuation of its current reform path should enable Estonia to cope with competitive pressure and market forces within the Union.

Improvements can be made by the government and the private sector to the functioning of labour markets by taking a more active role to tackle the unemployment problem. Furthermore, the consolidation of the local authorities' finances should be taken up to reinforce the prudent stance of fiscal policy. In addition, the restructuring of the oil shale sector should be actively pursued.

Since the Opinion, Estonia has made good progress in adopting the *acquis* and more recently, has also made progress in gradually building up the administrative capacity to implement and effectively enforce the *acquis*.

Over the past year, Estonia has made further advances in many areas including in the internal market, agriculture and justice and home affairs. However, the rate of progress in general has been slower than foreseen in Estonia's own planning as set out in its National Programme for the Adoption of the *Acquis*.

Overall, Estonia has now achieved a high degree of alignment with the *acquis* in the large majority of areas. It is also relatively advanced in having developed adequate administrative capacity to implement the *acquis* in a considerable number of fields. Estonia has most of the necessary institutions in place. Nevertheless, in some sectors, further efforts are required to strengthen the capabilities of these institutions. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Concerning the *internal market*, some progress has been made in *free movement of goods* in aligning both horizontal and sectoral specific legislation. Nevertheless, the market surveillance system including food safety should be improved. For *free movement of persons*, there has been further alignment on mutual recognition of professional qualifications, citizens' rights and free movement of workers although there is a need to ensure training of professionals is brought fully into line with EC standards. As regards *freedom to provide services, free movement of capital, company law, competition, and consumers and health protection* where preparations are relatively advanced, there has been some further alignment with the *acquis*. Areas where administrative capacity has been strengthened include the newly operating unified Financial Supervisory Authority and the introduction of a cross border payment system. Continued attention needs to be given to further developing the capacity of the Data Protection Inspectorate, the Public Procurement Office and the Financial Intelligence Unit (anti-money laundering). There

is also a need to ensure the effective application of competition *acquis* and to improve law enforcement in the areas of piracy and counterfeit goods.

Concerning *agriculture*, preparations have continued for the Common Agricultural Policy and further alignment has been made in the veterinary and phytosanitary sectors. A new Rural Development Foundation has been established. Work needs to continue, to strengthen the future paying agency and the Ministry of Agriculture in developing CAP systems including the Integrated Administration and Control System, also to develop capacity in the veterinary field, strengthen the Plant Protection Inspectorate and border controls, and ensure that food quality standards are met. In *fisheries*, the pace of progress has been slow although some steps have been made in resource management, inspection and control. Urgent improvements are necessary, in particular in continuing to develop the fisheries information system, to develop and implement structural and market policy and improve administrative capacity and coordination between the Ministries of Agriculture and Environment. Drafting of market legislation is currently ongoing and several projects are under preparation for the analysis of producer organisations, fisheries databases and registers. Estonia has begun to take steps to improve the co-ordination of the fisheries administration but these efforts need to be substantially stepped up. The full implementation of the measures in the Action Plan would help to ensure that the current gaps in the preparations are filled.

In *transport* policy, Estonia has continued to make steady progress in both aligning and implementing legislation including the establishment of an independent Air Traffic Investigations Department. There is a need to complete alignment in the railway sector, implement the social *acquis* in the road sector and improve maritime safety. In *energy*, progress has been made in removing market price distortions, improving regulation and nuclear safety. Estonia should continue to align legislation, in particular as regards the internal electricity and gas markets, develop renewable energy sources and further strengthen the energy market regulator. More generally, in terms of *industrial policy*, Estonia should complete the process of industrial restructuring by focusing on the oil-shale sector. In *telecoms* and *culture and audiovisual policy* alignment of legislation is largely complete. Nevertheless, Estonia should ensure universal service.

For *social policy and employment*, Estonia has made some progress in aligning health and safety legislation. The National Labour Board has been upgraded and designated as the focal point for European Agency for Health and Safety at work. Further work is required in aligning labour law, equality legislation and to improve capacity to implement and enforce legislation in public health, health and safety at work. Social dialogue should be further developed. In *regional policy* steady progress has been made in preparation for the structural funds. However, Estonia still needs to greatly improve the capacity of authorities designated to programme and implement EC regional policy after accession including the development of sound financial controls.

In the *environment* sector, further progress has been made. Estonia needs to continue alignment, in particular in the areas of waste, nature, chemicals, air protection and radiation; to invest in infrastructure including waste and waste water treatment; and to strengthen administrative capacity, at both ministerial and local government level. Estonia also needs to continue to improve enforcement of environmental legislation.

Estonia has made further progress in the field of *justice and home affairs* in data protection, border control, visas, migration, police and judicial cooperation. New systems

have been introduced - an online visa register and an online criminal register for the police services. Legislative alignment needs to be completed in particular in the fields of migration, asylum and money laundering. Attention should also be paid to implementing the Schengen Action Plan, reinforcing border controls and fighting organised crime.

In *taxation*, progress has been made in aligning VAT legislation. Estonia needs to continue alignment and strengthen the capacity of the tax board. In the field of the *customs union*, Estonia has made progress in alignment and IT development, and has established an investigation department at the Custom Board. Substantial efforts are urgently required to develop the administrative capacity to implement EC-compatible customs measures and relevant training of customs officials. Estonia must continue to develop and ensure the interconnectivity of its customs IT systems with those of the EC and is currently receiving significant support from the EC in this area. It should furthermore continue and step up its preparations for implementation upon accession of customs procedures involving the collection or suspension of customs duties, as well as the reorganisation of customs services.

In *financial control* good progress has been made in implementing internal financial control, in introducing legislation on external financial control and on protecting the financial interests of the EC. On *financial and budgetary procedures* good progress has been made in introducing new budgetary procedures. There is a need to reinforce capacity for own resources calculations.

In most areas Estonia is reasonably advanced in terms of developing the necessary administrative capacity to implement and enforce the *acquis*. However, as highlighted above, there are a number of areas where much has already been done but further efforts will also be needed to complete the work. In particular, these areas are free movement of persons, fisheries, agriculture, taxation, social policy and employment, energy, regional policy, environment, customs and justice and home affairs.

In the accession negotiations, 28 chapters have been provisionally closed. Estonia is generally meeting the commitments that it has made in the negotiations. However delays have occurred in adopting fisheries legislation, implementing a fisheries information system, ensuring the full operation and compliance of the Fishing Vessel Register, and in aligning legislation on air quality and radiation protection. These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Estonia has achieved at this point in time and its track record in implementing the commitments that it has made in the negotiations, the Commission considers that Estonia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Estonia needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

## **Hungary**

In its 1997 Opinion, the Commission concluded that Hungary fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for the protection of minorities. This has been

confirmed over the past year. Hungary continues to fulfil the Copenhagen political criteria.

Public administration reform at central level has been completed to a large extent. In this respect, the 2001 Law on Civil Servants, partly enforced in 2002, was an important step forward in the consolidation of the legal framework for civil servants. Following a complex review of the salary structure, the gap between earnings in the public and private sector was further reduced. A financial reform of the local self-governments is still outstanding.

Within the judiciary, the constitutional and legislative guarantees of judicial independence are well-established in Hungary and the system of judicial self-administration functions efficiently. The decisions to introduce the Regional Courts of Appeal and to strengthen the judiciary's financial independence are important steps as regards the improvement of the judicial capacity.

In line with its anti-corruption strategy, the Hungarian Government has continued to adopt a series of legal and practical measures to fight corruption, which remains a cause for concern. It is important that the new decisions be implemented quickly to better address the situation.

Hungary continues to respect human rights and freedoms. In the area of public service media, political parties are again fully represented in the Supervisory Boards of Trustees. New steps were taken to improve social dialogue.

With a view to addressing the difficult situation of the Roma, the implementation of the 1997 medium-term programme continued. The institutional framework has been further strengthened and a new monitoring system introduced. Still, Roma policy is not well integrated into general social development strategies and exists as a separate and parallel project. Roma continue to suffer discrimination. The Government is currently revising its Roma policy. The envisaged adoption of a comprehensive long-term strategy and comprehensive anti-discrimination legislation would be major steps forward in this regard.

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

Hence, it is concluded that Hungary is a functioning market economy. The continuation of its current reform path should enable Hungary to cope with competitive pressure and market forces in the Union.

Improvements can be made to macroeconomic management by reducing the general government deficit, thus preventing fiscal policy to become pro-cyclical and supporting a further reduction of the inflation rate. A more fundamental reform of the health care sector now needs to be embarked on. Wage developments will have to be brought in line again with productivity growth in order not to compromise the country's competitiveness.

Since the Opinion, Hungary has made continuous progress in aligning with the *acquis* in all areas. Implementation of the new legislation has been proceeding well in most sectors. Considerable efforts have been made by the country since 1997 to improve its administrative capacity needed for a satisfactory implementation of the *acquis*.

Over the past year, Hungary has further advanced in a number of areas, such as social policy, justice and home affairs, telecommunications, culture and audio-visual and energy with regard to the adoption and the enforcement of the *acquis*. Among the sectors in which only limited progress was made in the reporting year as regards administrative capacity figure agriculture and regional policy. However, administrative capacity was further improved in many other sectors, thereby increasing the level of preparations to effectively implement and enforce Community legislation.

Overall, Hungary has achieved a high degree of alignment with the *acquis* and is also well advanced with regard to achieving adequate administrative capacity to implement the *acquis*. However, further efforts remain to be made for Hungary to be fully capable of enforcing it by accession. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Continued good progress could be noted in the *internal market* sector. As described in last year's report, the major part of the *acquis* has been adopted, and administrative structures are in place. Since transposition of the *acquis* is very advanced as regards the *free movement of goods*, attention is now focusing on enforcement, for example on the effective establishment of the Food Safety Agency as well as on market surveillance. The necessary infrastructure for standardisation and certification is in place. Progress could be noted with the adoption of legislation on procurement in the motorway construction sector. However, further efforts are needed to align with the *acquis* on public procurement in particular as far as its correct application is concerned. In the field of *services*, Hungary's legislation is largely aligned. On data protection, however, legal alignment has to be completed and the appropriate administrative structures strengthened. Following the adoption of legislation on the fight against money laundering, Hungary was removed from the OECD Financial Action Task Force list of non-co-operative countries in June 2002. Also in the sector of *free movement of capital*, new legislation on land was adopted. However, further adaptations are still required. Administrative capacity to ensure the due supervision of financial services is adequate. In the field of *company law*, Hungarian legislation is largely in line with the *acquis*. While Hungary has a relatively good enforcement record, border control measures need to be strengthened with respect to intellectual property rights and the fight against piracy and counterfeiting further intensified. In *competition policy*, further efforts are still necessary to align State aid schemes, in particular the fiscal aid schemes. Both anti-trust and State aid enforcement bodies continued to work satisfactorily.

In *taxation*, Hungary's legislation is to a large extent aligned with the *acquis*. However, transposition of the *acquis*, notably as regards VAT and excise duty, has to be completed. Efforts should be continued to ensure that the computerised tax information system is fully operational ahead of accession. In *customs*, legislation is largely aligned with the *acquis*. Further efforts were made as regards customs warehousing, temporary importation, valuation and non-commercial consignments. Hungary continued to strengthen the administrative and operational capacity of the Hungarian Customs and Finance Guard and undertook significant steps to revitalise the development of

interconnectivity enabling systems. Efforts should be continued to ensure interconnectivity with EC computerised systems in the customs area.

With regard to *industrial policy* and *small and medium-sized enterprises*, the Széchenyi Plan will now concentrate on SME development and EC pre-accession projects and be integrated into the National Development Programme.

Good progress was again made in the area of *environment*, notably through the adoption of legislation in the air, water, industrial pollution control and genetically modified organisms sectors. However, the National Waste Management Plan still needs to be adopted. Administrative capacity in this sector was improved, *inter alia*, by changes in ministerial responsibilities, but due attention should be given to this issue in the future. In addition, environmental investments need to be further increased.

As to *agriculture*, Hungary has a steady basis upon which to implement the *acquis*. However, the preparation of key management instruments such as the paying agency and the Integrated Administration and Control System (IACS) has been delayed, and a number of decisions on the distribution of responsibilities are awaited. As regards IACS, serious efforts are needed to ensure that a fully functioning system will be soon in place. Delays have also occurred in making the SAPARD Agency operational. Steady progress could be noted in the veterinary and phytosanitary fields, but the upgrading of Border Inspection Posts and of establishments needs appropriate attention. Ongoing efforts need to be substantially stepped up. Legal alignment proceeded in the area of *transport*, in particular in the road and rail sectors. Although some additional steps have been taken, the restructuring of the rail sector should be completed to fully implement the market access *acquis*. In addition, institution-building efforts have to be further enhanced in this sector.

Considerable progress was made in the *energy* sector with the adoption of the electricity law, which paved the way for the liberalisation of the Hungarian market. However, no similar progress was made in the gas sector. Administrative capacity is at an advanced level. Good progress could be noted in the *audio-visual* sector through the adoption of the media law, but further efforts are needed to achieve full alignment.

Considerable progress was made in the area of *social policy and employment*, notably with the adoption of further implementing legislation to the Labour Law. As to social dialogue, the new Government introduced confidence-building measures and decided to set up a National Interest-Reconciliation Council to enhance real dialogue. The capacity to implement the *acquis* on occupational safety and health, including the strengthening of labour inspectorates, has been increased, but needs further attention.

In relation to *regional policy*, it was decided in June 2002 to establish a more efficient institutional framework for programming and implementation of structural and cohesion funds. However, the capacity of the managing and paying authorities has to be strengthened. Further progress is also needed as regards the technical preparation of projects eligible for Community funding. While progress was made in establishing financial management and control systems, the programming process suffered from delays in the reporting period. Hungary's preparations for the structural instruments have to be substantially stepped up.

Considerable progress was made in the *telecommunications* sector, where the Hungarian market was opened for competition with the adoption of the communications law. Efforts need to focus on ensuring affordable universal service.

In the area of *Justice and Home Affairs*, significant progress was achieved through further alignment with the *acquis* in the fields of visa policy, migration and asylum. The fight against fraud, corruption, money laundering and organised crime was made more efficient through the adoption of additional legislation and reinforced institutional structures. A revised Schengen Action Plan addresses the main issues of the *acquis*.

In the area of *common foreign and security policy*, Hungary still needs to find an agreement with Slovakia and Romania on the implementation of the Law on Hungarian minorities living in neighbouring countries. Also, the law needs to be aligned with the *acquis* upon accession.

As to *financial control*, enhanced efforts are needed in the sector Public Internal Financial Control, both in terms of legal alignment and administrative capacity. In order to tackle the weaknesses identified, Hungary is in the process of redefining its internal audit functions and structures according to international practice and to redraft the respective legislation. Efforts need, however, to be considerably stepped up.

Hungary has continued to make progress in building up its administrative capacity to apply the *acquis* in most areas. However, further efforts will have to be made in particular in areas such as agriculture, transport, regional policy, environment and financial control. Further action is also still required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

In the accession negotiations, 26 chapters have been provisionally closed. Hungary is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to the transposition of parts of the veterinary *acquis*, legislation on the size control of imported fish, the adoption of the gas law and several pieces of environmental legislation (national climate change strategy, National Waste Management Plan, regional and local waste management plans, packaging and packaging waste and waste oils). These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Hungary has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Hungary will be able to assume the obligations of membership in accordance with the envisaged time frame. In the period leading up to accession, Hungary needs to continue its preparations in line with the commitments it has made in the accession negotiations.

## **Latvia**

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

Regarding public administration reform, Latvia has continued to address the remaining reform issues and the legislative and administrative framework will be fairly comprehensive once the Civil Service Law and Public Administration Law are fully implemented. It is now important to speed up the introduction of the uniform civil service pay system and to ensure sufficient funding.

Overall, while most of the deficiencies of the judicial system have been identified, only part of them have been addressed. Efforts in this field need to be multiplied in order to ensure a thorough systemic reform, based on political support for modernising the judiciary and sufficient funding. The legislative framework still remains to be completed and the increasing backlog of court cases should be reduced. The issue of pre-trial detention requires continued attention. Further significant efforts to strengthen the *de facto* independence, efficiency and quality of the judiciary are needed. The upgrading of the infrastructure of courts needs to be completed.

Latvia has made further progress in the fight against corruption, which remains a cause for serious concern. The legislative framework has been improved, the institutional set-up has been strengthened and public awareness as well as the involvement of civil society are rising. However, further efforts are needed in order to complete the institutional set-up and to provide the new Anti-Corruption Bureau with the necessary means in order to achieve concrete results.

Latvia continues to respect human rights and freedoms.

Latvia has encouraged the further integration of non-citizens into Latvian society by removing language requirements in the election law, and increasing support to facilitate the naturalisation process, and through the activities of the Society Integration Foundation. The integration process needs however to be accelerated and sufficient funding made available to encourage naturalisation and language training in particular. Latvia should ensure that at all levels the implementation of the language law respects the principles of justified public interest and proportionality, Latvia's international obligations and the Europe Agreement.

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

Hence, it is concluded that Latvia is a functioning market economy. The continuation of its current reform path should enable Latvia to cope with competitive pressure and market forces within the Union.

Improvements can be made to the functioning of the labour markets, in particular by active labour market measures in favour of disadvantaged groups, reinforcing public and private infrastructure necessary for the mobility of the workforce and further reforms to the educational system. Fiscal policy has to maintain a prudent approach, also in view of the high current account deficit. In addition, improving the general business environment and strengthening the administrative and judicial capacity would support a more broad-based private sector development.

Since the Opinion, Latvia has made steady progress in aligning its legislation with the *acquis*, in particular during the last 2 years. As a consequence the majority of the primary legislation has been put in place. At the same time, considerable efforts have been made to strengthen its administrative capacity, albeit not to the same extent as legislative alignment.

Over the past year, Latvia has further advanced in completing alignment and creating or restructuring related specialised bodies in the vast majority of areas. It has as well intensified training in most areas with a view to complying with the requirements of the *acquis*.

Overall, Latvia has achieved a high degree of alignment with the *acquis* in many areas, and is well advanced towards reaching adequate administrative capacity to implement the *acquis* in most fields. Further efforts remain to be made, in particular regarding its administrative capacity in most fields, as well as completion of legislation in a number of sectors. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

The preparation for participation in the internal market is well advanced and Latvia has achieved a good level of alignment in this area. As regards *free movement of goods*, the legal and institutional framework is generally in place. There has been sustained development of the standardisation system, which needs however to be reinforced. The reform of the market surveillance system and its infrastructure, including on food safety and in the field of public procurement, requires further strengthening. The process of bringing Latvia's legislation and structures in relation to the *free movement of persons* into line with the *acquis* has developed satisfactorily, although further efforts are required, especially on mutual recognition of professional qualifications as well as on strengthening institutional capacity. In the area of *freedom to provide services*, legislative alignment has advanced, notably regarding financial services and banking, but further work remains necessary regarding insurance and securities. In the area of *capital movements*, legislative alignment is well advanced, but the process needs to be completed as regards capital movements and payments. The administrative capacity has been put in place in this field, though further reinforcement remains necessary. On *company law*, an important development was the recent entry into force of the Commercial Code, which now needs to be implemented. While Latvia's legislation is well advanced in the field of intellectual and industrial property rights, effective action to fight against piracy and counterfeiting remains a challenge. In the area of *competition*, Latvia's legislative alignment, administrative capacity and enforcement record is reasonably advanced, but efforts should continue to develop a track record on effective implementation of competition legislation.

As regards *customs*, legislation is largely aligned, but organisational restructuring and implementation needs to continue, as it does for *taxation*, where legislation needs to be completed on direct and indirect taxation. Latvia should step up its ongoing legislative work, and urgently speed up its preparations for electronic interconnectivity. For both areas, Latvia has committed itself to introducing adequate information technology systems so as to allow the exchange of electronic data with the Community and its member states. Significant further work is required as a priority for these systems to be operational by the date of accession.

Latvia has made further progress in the field of *agriculture* as well as more recently through upgrading of administrative structures with a view to the implementation of the Common Agricultural Policy. The establishment of the Food and Veterinary Service as the joint body responsible for controls of the entire food chain and the accreditation of the SAPARD agency constitute a significant achievement. However, important challenges lie ahead to complete alignment, and to reinforce the institutional capacity to implement the Common Agricultural Policy and its implementing measures, including the paying agency, the Integrated Administration and Control System (IACS) and the Common Market Organisations (CMO). Particular efforts remain necessary in the field of veterinary and food safety controls as well as on upgrading of food establishments to Community Standards. As regards *fisheries*, Latvia's legislation has been aligned to a reasonable extent, although there are gaps, notably as regards structural actions and market policy. The administrative structures have been partially established. Latvia's efforts now need to focus on further reinforcing administrative capacity and ensuring sufficient funding.

While Latvia's legislation is to a great extent in line with the *acquis* in the field of *transport*, the relevant framework laws (with the exception of maritime transport) are in place and the administrative capacity is being strengthened. Further efforts are necessary to complete the alignment process notably in the rail and maritime sectors as well as regarding administrative capacity in road, rail and air transport. The recent increase in capacity regarding maritime safety and Flag State performance needs to be further enhanced.

A significant step forward was the adoption of the new Labour Code in the field of *social policy and employment*. Legislative alignment in this field is well advanced, but needs to be completed. Effective implementation and enforcement regarding labour law, health and safety and public health remains important. In the field of *energy*, a reasonable level of alignment of legislative and institutional capacity has been achieved, but this process needs to be completed, in particular regarding the internal energy market (electricity and gas), oil stocks, increased energy efficiency and reinforcement of the administrative capacity of the various bodies. Latvia has achieved considerable progress in aligning with the *environmental acquis*. This process needs to be completed and the administrative capacity needs further strengthening, especially regarding inspections, co-operation and coordination at all levels. Investments should be enhanced.

With the adoption of the Law on Telecommunication and the establishment of the Public Utility Commission as regulator, the legislation is largely aligned and the institutions are in place. However, particular efforts are necessary with a view to a further liberalisation of the *telecommunications* market, the strengthening of the independence and effectiveness of the regulator and legislative alignment in the field of postal services. Particular progress was made recently in terms of institutional strengthening in the field of culture and audio-visual policy, where Latvia's legislation is largely in line with the *acquis*.

In the field of *justice and home affairs*, significant progress has been made in terms of legal alignment as well as continued strengthening its institutional capacity. Latvia's efforts need now to focus on completion of legislative alignment, especially on migration, money laundering, and protection of the financial interests of the European Communities and judicial co-operation and implementation of the high quality Schengen

Action Plan. Further reinforcing of the law enforcement bodies is needed, with particular attention to be paid to the fight against drugs and trafficking in general, smuggling, fraud, corruption and organised crime, including through improved cooperation between the various bodies involved. Strengthening of integrated border controls and completion or upgrading of structures also remains an important priority.

As for *regional policy and the co-ordination of structural instruments*, progress was made recently in preparing for the implementation of structural policies and designation of the main institutions involved. However, efforts will need to focus on building up adequate and efficient administrative capacity for the management of the Structural Funds and Cohesion Fund at all levels. Moreover, preparation of an up-to-standard draft Single Programming Document should be speeded up and inter-ministerial co-ordination and partnership needs to be ensured. Generally, all systems and procedures for effective monitoring, financial management and control should be reinforced and the legal framework has to be completed. There is a particular need for progress as regards the technical preparation of projects eligible for Community funding. Latvia has started to take measures to address the weaknesses identified, including through the allocation of human resources. Ongoing efforts need to be continued and substantially stepped up. The establishment of the Public Internal *Financial Control* system is relatively advanced, but needs to be completed, including legislative alignment.

Preparing its administrative capacity for membership remains one of the greatest challenges Latvia faces. With a view to the responsibilities Latvia will have to assume in managing and enforcing the *acquis* upon accession, a substantial portion of the necessary institutions have been restructured or created. While this process is well advanced, further substantial efforts are required to ensure that these institutions become fully operational. This is particularly important in areas such as internal market, agriculture, fisheries, transport, regional policy, environment, justice and home affairs and with regard to the implementation of information technology systems for taxation and customs. Finally, continued efforts are necessary to enhance Latvia's capacity to ensure sound, efficient and controllable management of EC funds.

In the accession negotiations, 27 chapters have been provisionally closed. Latvia is generally meeting the commitments it has made in the negotiations.

Bearing in mind the progress achieved since the Opinion, and in particular over the recent past, the level of alignment and administrative capacity that Latvia has achieved at this point in time, and its track record in implementing the commitments it has made in negotiations, the Commission considers that Latvia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Latvia needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

## **Lithuania**

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

Lithuania has made considerable progress in pursuing public administration reform, notably through the adoption of the new Civil Service Law and the related implementing legislation. Lithuania needs to ensure that the reform is duly implemented in all services and that adequate financing is secured as a matter of priority.

Substantial progress has been made in reforming the judicial system, in particular, notably through the adoption of the Law on Courts. Due attention should be given to ensuring proper implementation of the new legislation. Further efforts are needed to improve the professional capacity of judges and prosecutors. This is fundamental to guaranteeing the quality of legal proceedings and respect for procedural rights and professional ethics. Further progress is required also in accelerating court proceedings and ensuring the enforcement of judgements.

Considerable progress has been made as regards the fight against corruption, mainly with the adoption of the National Anti-Corruption Programme and the Law on Corruption Prevention. Sustained efforts should be made by law enforcement bodies and line ministries to ensure the proper and effective implementation of measures against administrative corruption, which remains a cause for concern.

Lithuania continues to respect human rights and freedoms.

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

Hence, it is concluded that Lithuania is a functioning market economy. The continuation of its current reform path should enable Lithuania to cope with competitive pressure and market forces within the Union.

Improvements can be made to the labour market by addressing the high unemployment. The management of public finances should be improved, in particular by addressing, at municipal level, the accumulation of expenditure arrears. Furthermore, the completion of the pension reform, by the planned introduction of a funded compulsory pension scheme, should make public finances more sustainable in the long term and support the development of financial markets. In addition, strengthening the administrative and judicial capacity, and simplifying procedures, in areas relevant for the business sector, including in bankruptcy and enterprise restructuring, would enhance market entry and exit of companies.

Since the Opinion, Lithuania has made significant progress in terms of both transposition of the *acquis* and administrative capacity. While the initial efforts were unsystematic, in recent years the pace and scope of transposition has considerably improved and increasing efforts have been devoted to the challenging task of building up the necessary administrative capacity.

Over the past year, Lithuania has further advanced in its accession preparations, in particular in the areas of free movement of goods, free movement of persons, competition, energy, regional policy and justice and home affairs. Limited progress has

been made in the areas of financial control and fisheries. Although progress was made in the areas of agriculture and environment, continuous efforts are still needed.

Overall, Lithuania has achieved a good degree of alignment with the *acquis* across most fields, and in some areas the level of alignment is now high. Lithuania has set up most of the administrative structures which are necessary to implement the *acquis*; however, further sustained efforts to reinforce the administrative capacity are required, notably as regards training and retaining qualified staff and ensuring effective inter-agency co-ordination. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Lithuania has continued to make progress in the area of the internal market. In the field of *free movement of goods* the legislation is aligned to a large extent. The main administrative structures are in place but these are not yet fully operational. As regards market surveillance, efforts are needed to further develop the infrastructure, notably in the areas of testing and certification. In the field of food safety, progress has been made in terms of alignment and administrative capacity, but further efforts are required as regards the abolition of pre-market authorisation of foodstuffs. Legislation on public procurement has been further aligned but still needs some fine-tuning, and the public procurement office needs to be further strengthened. As regards *free movement of persons*, Lithuania has reached a good level of alignment, while the administrative structures in place are not yet operating satisfactorily. In the area of mutual recognition of qualifications, major efforts remain to be made in the area of medical professions. In the area of *freedom to provide services*, legislation is aligned to a reasonable extent, but administrative structures do not yet operate in a fully satisfactory manner. Good progress has been made in the fields of banking and securities. Legislation concerning the insurance sector and data protection should be further aligned, notably to guarantee the independence of the supervisory bodies. Co-operation between supervisory institutions should be strengthened. Further progress has taken place in the area of *free movement of capital*, where Lithuania had already achieved a high degree of liberalisation. Further sustained efforts are needed as regards payment systems and the fight against money laundering.

As regards *company law*, Lithuania has reached a reasonable level of alignment and administrative structures are in place but not yet fully operational. Further alignment has been achieved concerning patent and intellectual property rights. The fight against piracy and counterfeiting needs to be significantly intensified, as does co-operation between the authorities involved in the enforcement of intellectual property rights. In the area of *competition policy* legislation is aligned to a broad extent and administrative structures are in place and are operational. Lithuania should continue to develop a track record of proper application and enforcement of its legislation. The Competition Council should focus on a more deterrent sanctions policy in the field of anti-trust and pay close attention to rescue and restructuring aid.

As regards *taxation*, Lithuania has reached a good level of alignment and administrative capacities are largely in place but need further strengthening. Lithuania has made significant progress in aligning its tax legislation although further alignment is required in the areas of VAT and excise duties. The tax administration reform has also made some progress. In the area of *customs union*, Lithuania has achieved a good degree of alignment and administrative capacities are partially in place. However, further efforts

remain to be made in strengthening inter-agency co-operation and in enforcing existing provisions on fraud, intellectual property rights and anti-corruption. For both areas, particular efforts are necessary to ensure adequate information technology systems so as to allow the exchange of data with the EC and its Member States.

As regards *agriculture*, transposition of legislation is proceeding well. Administrative structures are partly in place but further improvements are needed. Lithuania should focus on border inspection posts, the Integrated Administration and Control System, administrative capacity to manage the Common Agriculture Policy, paying agency, upgrading of establishments, and animal waste treatment.

As regards *fisheries*, legislation has been aligned to a reasonable extent, although there are gaps, notably as regards market and structural policy. The administrative structures have been partially established. Further efforts are needed to develop market and structural policy and reinforce the control and inspection functions. The establishment of the fishing vessel register needs to be finalised.

Legislation in the *transport* sector is now to a great extent in line with the *acquis*, although further efforts are needed as regards rail transport. The relevant framework laws are in place and only a limited amount of implementing legislation remains to be implemented. Administrative structures are largely in place, but need further strengthening. In the *energy* sector, Lithuania has achieved a high level of legislative alignment, while administrative structures are largely in place but need further strengthening. Progress regarding the internal energy market has been good. As regards nuclear safety, Lithuania took the very important step of formally confirming that Unit 1 of the Ignalina NPP will be closed before 2005 and formally committing to close Unit 2 of this plant by 2009. The EU expressed its readiness, on the basis of Community solidarity, to continue to provide adequate additional Community assistance to the decommissioning effort after Lithuania's accession. Lithuania's efforts now need to focus on ensuring full and timely implementation of legislation; on nuclear safety, including the timely installation of a diverse second shutdown system at Unit 2 of the Ignalina NPP, and the preparation of the closure and decommissioning of this NPP; and on strengthening the administrative capacity, in particular the energy regulator and the nuclear safety authority.

In the field of *social policy*, legislation has been transposed to a large extent and administrative structures are largely in place but need further strengthening. Progress has taken place with the adoption of the Labour Code and of the new provisions on collective agreements. Lithuania needs to complete transposition and effectively implement the *acquis* in the areas of public health and health and safety at work, including through the strengthening of relevant institutions; develop social dialogue and social protection; and further strengthen the administrative structures to manage support from the European Social Fund. In the field of *environment*, transposition has reached a relatively good level, but implementation is not yet fully satisfactory. Lithuania needs to focus on finalising the transposition and strengthening the overall administrative capacity. Close attention is required to implementation of the *acquis* with regard to waste management, water quality, industrial pollution control, chemicals and GMOs and nature protection.

In the area of *telecommunications*, Lithuania has reached a good level of alignment but implementing legislation remains to be transposed. Administrative capacities are in place but not yet fully operational. The independence of the Communication Regulatory

Authority has been substantially strengthened. Further efforts remain to be made on completing legislative alignment and preparing for full liberalisation and strengthening the administrative capacity of the regulator.

In the field of *justice and home affairs*, Lithuania has achieved significant legislative alignment. Administrative structures are mainly in place, although further efforts are still necessary. Lithuania has updated and has continued to implement the Schengen Action Plan. Lithuania needs to focus on finalising alignment (notably on visas, Schengen, asylum, money laundering and protection of the financial interests of the European Communities) and on further reinforcing the law enforcement agencies, in particular as regards data protection, the protection of the external border and the fight against corruption.

In the field of *regional policy and co-ordination of structural instruments*, the institutional framework is largely in place, but the administrative capacity and the technical preparation of projects have not yet reached the level required. Administrative capacity has been strengthened, inter-ministerial co-ordination improved and good progress has been made as regards programming and partnership. Lithuania should focus efforts on completing the programming documents, defining the final implementation structures and further reinforcing the administrative capacity, in particular as regards technical preparation of projects eligible for Community funding, monitoring, financial management and control.

In the area of *financial control*, while the *acquis* has been transposed, further efforts are required to consolidate the fragmented legal provisions relating to public internal financial control into a single comprehensive law. The administrative structures are partially in place but not yet fully operational. They need to be strengthened considerably, in order to implement effectively the consolidated legislation. Ongoing work on the audit manuals should be finalised. Full implementation of the measures foreseen in the Action Plan with regard to the implementation of a methodology for financial management and control, for internal audit throughout the Government, and for training of human resources would go a long way to ensure that the current gaps in administrative capacity and implementation of the *acquis* are filled. In the area of *financial and budgetary provisions*, the legal framework is largely in place but the administrative capacity needs further improvement, in particular as regards the calculation, control and provision of own resources by accession.

As regards *administrative capacity*, Lithuania has achieved a sufficient, though still rather fragile, capacity to ensure effective implementation and enforcement of the *acquis*, notably in the area of internal market and the various Community policies. Lithuania needs to ensure the administrative structures are fully operational, in particular with a view to guaranteeing the uniform and predictable implementation of the *acquis*. Particularly close attention is required regarding the structures which are necessary to implement that part of the *acquis* which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds.

In the accession negotiations, 28 chapters have been provisionally closed with Lithuania. Lithuania is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to fisheries (completion of the fishing vessels register), statistics (conduct of the agricultural census) and environment (legislation on packaging and on biocides). These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity which Lithuania has achieved at this stage, and Lithuania's track record in implementing the commitments it has taken in the negotiations, the Commission considers that Lithuania will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Lithuania needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

## **Malta**

The Commission has repeatedly concluded that Malta fulfils the political criteria. This was the conclusion of previous Regular Reports, and has been confirmed over the past year. Malta continues to fulfil the Copenhagen political criteria.

Malta has taken further measures to improve the quality of the civil service as well as of the judicial system.

Malta continues to respect human rights and freedoms. It has made further progress by improving its legal framework in the area of asylum, the fight against racism and the fight against trafficking in human beings.

Malta is a functioning market economy and it should be able to cope with competitive pressure and market forces within the Union.

The 1999 update of the Opinion already acknowledged the economic reform efforts undertaken by the Maltese authorities to prepare for EU accession. Since the Opinion, the Maltese authorities' commitment to the economic requirements of EU accession has been sustained.

Further improvements can be made to macroeconomic management by reducing the general government deficit and reforming public expenditure to ensure medium-term fiscal sustainability. More progress can be made on restructuring large loss-making public enterprises and public utilities. Attention should be paid to the supervision of non-performing loans in the banking sector.

Since the update of the Opinion in 1999, Malta has made considerable progress in aligning its legislation with the *acquis* and it has significantly improved its administrative capacity, particularly as regards free movement of goods, statistics, telecommunication, regional policy, justice and home affairs, and financial control. There has been progress, although uneven, in all other areas of the *acquis*.

Over the past year, Malta has made considerable legislative progress in the areas of freedom to provide services, environment and customs and further progress in other areas, particularly regarding free movement of goods, free movement of persons and statistics. It has continued to improve its administrative capacity, notably in the areas of standardisation and market surveillance, statistics, regional policy, justice and home affairs, customs and financial control. However, progress has been limited in the areas of agriculture, fisheries, transport and social policy.

Overall Malta has achieved a good degree of alignment with the *acquis* in many areas and is well advanced towards adequate administrative capacity to implement the *acquis*

in many fields, although further efforts remain to be made, in particular as regards agriculture and environment. Detailed plans have been agreed, in particular in the negotiations and the Action Plans, to cover the remaining gaps.

In the field of the *internal market*, there has been considerable legislative progress on *free movement of goods*, and Malta has reached a high level of alignment with the *acquis* in this area. Malta must finalise the alignment of its public procurement legislation as regards the remedies system and bodies governed by public law. Its administrative capacity is broadly adequate in this area. As regards *free movement of persons*, there has been progress in adopting a legislative framework for the mutual recognition of professional qualifications, but alignment is still incomplete in the fields of citizens' rights and free movement of workers. Malta has continued to progress on *free movement of services and capital*, particularly as regards financial services and data protection, however further legislative alignment is needed in particular as regards the right of establishment and freedom to provide services. In the area of *company law*, there has been little progress over the past year and Malta still needs to transpose some directives on intellectual and industrial property rights in order to align fully with the *acquis*. As regards *competition*, Malta has made further progress in the enforcement of the State aid rules, but it still needs to adopt an appropriate framework for public undertakings. The compatibility of the aid granted to the shipyards needs to be ensured. The administrative capacity of the Competition Board and of the State Aid Monitoring Authority should reach a satisfactory level, provided efforts to strengthen them are continued.

In the field of *taxation*, Malta has achieved a high level of alignment as regards excise tax, but further alignment is needed as concerns VAT (scope of exempt transactions) and the code of conduct on direct taxation. The administrative capacity is on track to reach an adequate level as regards VAT and direct tax, but urgent efforts are needed as regards excise tax. In the area of *customs*, following the adoption of a new customs code, the Maltese customs legislation is now largely in line with the *acquis*, and the administrative capacity is on track to fulfil the requirements in this area.

As regards *transport*, there has been little progress over the past year, and that mainly in the field of maritime transport. Malta still has to transpose considerable parts of the *acquis*. Following the implementation of the Maritime Action Plan by Malta, there has been an improvement regarding maritime safety but the administrative capacity needs to be further strengthened and efforts on maritime safety need to be pursued to achieve the objective of being removed from the Paris Memorandum of Understanding black list. The Maritime Action Plan has introduced some improvements in this area. Ongoing efforts must be pursued. In the field of *energy*, Malta progressed in transposing the *acquis*, in particular as regards energy efficiency. Recent progress, in particular on the internal energy market, needs to be sustained to align Maltese legislation in this area to the *acquis*. Administrative capacity needs to be further strengthened.

In the area of *agriculture*, there has been some legislative progress, but little progress as regards the administrative capacity. Malta has still to adopt considerable parts of the agriculture *acquis*. The capacity to enforce the *acquis* remains a source of particular concern in the area of agriculture and it should be strengthened as a matter of priority. In particular Malta must improve its administrative capacity to implement the Common Agricultural Policy and the EC rural development schemes and has to upgrade inspection arrangements in the veterinary and phytosanitary fields, as well as the border inspection

arrangements. Steps have been taken for the setting up of the Integrated Administrative Control System and the Paying Agency, and funds have been committed to further strengthen the administrative capacity regarding rural development. However, a comprehensive plan to strengthen the administrative capacity in this area is still lacking. Ongoing efforts to reinforce administrative capacity and to continue the dismantling of levies should be vigorously pursued. As regards *fisheries*, Malta also needs to finalise the alignment of its legislation with the *acquis* and to implement fully its plans for substantial strengthening of its administrative capacity. Current plans to strengthen the fisheries department are steps in the right direction. Substantial further efforts are still required in this regard.

Malta has made some progress in the area of *social policy*, mainly as regards occupational health and safety. The alignment with the *acquis* is insufficient in the fields of labour law and equal opportunities. Malta is on track to achieve adequate implementation capacity for occupational health and safety, provided the current efforts are pursued, but a strengthening of the capacity regarding public health is needed. There has been continued progress in the area of *regional policy*, where the overall framework is in place to implement the structural and cohesion funds, however Malta still needs to finalise its Single Programming Document. As regards the administrative capacity, some bodies involved in implementation need to be further strengthened. As regards the *environment*, there has been considerable legislative progress but Malta needs to stick to its tight schedule of alignment with the *acquis*. It should also significantly strengthen its administrative capacity in the field of environment, which remains very weak. It is crucial, to that purpose, that Malta implements its plan to increase the staffing of the competent bodies in this area considerably (mainly the Malta Environment and Planning Authority) and to reinforce its permitting and inspection practices. These plans need to be adhered to strictly.

Malta has reached a good level of alignment with the *acquis* in the field of *telecommunications*, although further alignment is still needed, and in *culture and audiovisual policy*, and its administrative capacity in these areas is broadly adequate.

In the field of *justice and home affairs*, there has been progress, in particular as regards the *acquis* on asylum, data protection, visa policy and money laundering, as well as with the adoption of a Schengen Action Plan and strengthening of the administrative capacity in the areas of border control and asylum. Malta has achieved a good level of alignment with the *acquis* but further progress is needed as regards immigration and judicial co-operation. The administrative capacity in this area is generally adequate, but the current plans to strengthen it in the fields of data protection, money laundering, asylum and border control need to be fully implemented.

In the field of *financial control*, the regulatory framework and the institutional capacity are broadly satisfactory and efforts need only focus on the finalisation of the arrangements regarding fight against fraud and protection of EC financial interests. In the *statistics* area, the administrative capacity is broadly adequate and Malta well on track to fully align its methodologies with EC standards, provided the current efforts continue.

Overall, provided Malta implements its plans to strengthen its administrative capacity as mentioned above, it should be able to ensure a reliable enforcement of the *acquis* and to participate adequately in the Union's policy-making processes. Malta's capacity to ensure sound, efficient and controllable management of EC funds is generally good and

should be fully adequate once it has finalised its plans regarding the body in charge of fight against fraud and protection of EC financial interests.

In the accession negotiations, 25 chapters have been provisionally closed. Malta is generally meeting the commitments it has made in the negotiations. However delays have occurred in the areas of free movement of persons (citizens' rights and free movement of workers), fisheries (vessel monitoring, market policy), agriculture (establishment of the Paying Agency), transport (road and maritime transport) and social policy (labour law and gender equality). These issues need to be addressed.

Bearing in mind the progress achieved since the 1999 update of the Opinion, the level of alignment and administrative capacity that Malta has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Malta will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Malta needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

### **Poland**

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

The reinforcement of administrative capacity across the civil service is an important issue, recent developments have been mixed and further efforts are needed. In the area of public administration progress in the implementation of the 1999 Civil Service Law has been limited by the temporary suspension of the system of recruitment by open competition. It is essential that the pace of implementation, most notably with respect to recruitment, is accelerated so as to ensure that an independent, well trained and motivated civil service is in place by the time of accession.

Poland has made further progress in reforming the judiciary and in creating conditions to allow for a reduction in the most pressing bottlenecks. Efforts should now focus on ensuring that the progress to date delivers the desired result in terms of improved efficacy of the judiciary. Issues relating to judicial immunity are being addressed and should be followed up. Similar priority needs to be given to the training of judges, in particular in EC Law. While there have been ongoing efforts a sustainable structured programme of training needs to be put in place.

Corruption remains a cause for serious concern, a comprehensive strategy has been adopted to combat the problem. Substantial efforts are required to ensure concrete results, which to date have been limited, and in particular to develop a political, administrative and business culture which can resist corruption.

Poland continues to respect human rights and freedoms.

The 1997 Opinion already acknowledged the comprehensive reform efforts undertaken by the Polish authorities to transform their economy. Since the Opinion, and against a

challenging international economic environment, economic performance has improved. Macroeconomic stability has been achieved, reforms have continued while the Polish authorities' commitment to the economic requirements of EU accession has been sustained.

Hence, it is concluded that Poland is a functioning market economy. The continuation of its current reform path should enable Poland to cope with competitive pressure and market forces within the Union.

Improvements can be made to fiscal policy through the implementation of the government's new expenditure norm at all levels of government as part of a more broadly based structural reform of public finances to support fiscal consolidation. Furthermore, restructuring and privatisation, mainly in heavy industry, the financial sector, energy distribution and agriculture, needs to be completed. In addition, bankruptcy procedures and the land registry call for further improvement. Finally, central bank independence must be preserved to ensure macroeconomic stability and investor confidence.

Since the Opinion, Poland's progress has been characterised by a slow start and a subsequent acceleration in respect of the adoption of legislation. As a consequence the vast majority of primary *acquis* is now in place, although in some sectors there are considerable gaps in the necessary implementing legislation, for example, in the veterinary, environment and food safety areas. There has been a knock on effect in terms of administrative capacity which has progressed since the Opinion, but not to the same extent as legislative alignment.

Over the past year, Poland has further advanced its alignment of primary legislation, notably in the areas of transport and free movement of persons. The performance in adopting implementing legislation has varied considerably between sectors. The development of administrative capacity has mirrored the progress of implementing legislation.

Overall, Poland has achieved a high degree of alignment with the *acquis* in many areas, and is well advanced with reaching adequate administrative capacity to implement the *acquis* in a number of fields, although further efforts remain to be made across the board with respect to administrative capacity, and in a number of sectors in particular with regard to alignment with the *acquis*. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

With regard to the internal market, in the area of *free movement of goods* considerable progress has been made over the last two to three years, notably by putting in place the framework legislation needed and by developing further the institutional infrastructure needed for its implementation. To date a high level of alignment has been achieved in relation to the primary legislation and administrative capacity has reached a reasonable level. Legislative developments in the area of market surveillance need to be built on through the development of the necessary administrative capacity. The area of food safety has not seen the progress in the adoption of implementing legislation identified as necessary in the last Regular Report and administrative capacity remains weak. Further work is also required to ensure the structures are in place to implement the public procurement *acquis*. In overall terms, a high level of alignment with the *acquis* has been achieved and a strong administrative capacity developed in the area of *free movement of*

*persons*. In the field of *free movement of services*, there is generally a good level of alignment and sound administrative capacity. However, further efforts are required in aligning existing legislation concerning banking, insurance and securities. A course of action to resolve these difficulties has been agreed. Following the peer group review, Poland has produced an action plan but several problems such as discriminatory language requirements, problems with administrative structures and ensuring independent supervisory structures remain. Poland's track record in the *free movement of capital* has been one of steady progress, both in aligning its legislation and in developing the necessary administrative structures. Poland has to a large extent achieved alignment with the *acquis* in the area of *company law*, and gradual progress has been made with strengthening administrative capacity which has achieved a reasonable level, with the exception of intellectual property enforcement. Building up administrative capacity is essential if effective implementation is to be ensured. In the field of *competition*, legislative alignment is largely complete, although there remain some gaps on State aid, and efforts have focused on establishing a credible record of enforcement in the area of State aid. These efforts will need to be continued and intensified, with a specific and urgent focus on the restructuring of the steel sector where aid can only be given if an acceptable overall restructuring programme including necessary measures for reaching viability and necessary cuts in production capacity is reached.

In the *telecommunications* area, Poland has made steady progress since the Opinion in aligning with the *acquis* and liberalising its market. Implementation of the existing legislation has improved over the last year; further legislative alignment is awaited, as is the evaluation of the economic implications of full implementation of the universal service *acquis*.

With regard to *EMU*, alignment is almost complete, however the legislative amendment necessary to ensure the degree of independence of the National Bank as set out in the *acquis* remains to be undertaken.

There has been further progress in aligning rates of indirect *taxation*. In overall terms, Poland has achieved a reasonable level of alignment with the *acquis* and moderate development of the necessary implementing capacity. Significant further work is required to ensure that the systems are in place to allow for the exchange of computerised data between the EC and Poland by the date of accession. In the *customs* area the situation is similar, with a respectable record on alignment but a weaker one on administrative capacity. The establishment of the necessary information technology infrastructure will require considerable further effort if the intended deadlines are to be respected. This will require an approach which gives urgent attention to accelerating the work on computerisation and interconnectivity and overcoming the disruption caused by the reorganisation of the central customs service. Steps have been taken to secure the necessary funding but this matter will need to be kept under close scrutiny and the Commission intends to report on progress at the end of the first half of 2003. Efforts should also focus on completing the alignment of Poland's customs legislation on that of the Community, in particular by adopting the amendment to the customs code which is currently under preparation.

Further transformation is needed, in terms of policy, legislation and structures in the *agriculture* sector, where the overall situation in terms of legislative alignment and in particular administrative capacity has been weak. There has been some progress with

regard to primary legislation. In the veterinary sector the good work of the previous year has not been built on and requires urgent attention. There have been some efforts to address the considerable weaknesses in administrative capacity. However these will need to be intensified, in particular at the regional level, if they are to have any significant impact. Considerable further efforts are needed in upgrading establishments and ensuring that adequate inspection arrangements at the borders are in place. The Integrated Administration and Control System (IACS) in particular must be in place, if Poland is to be in a position to effectively administer and control the CAP support schemes. This has been acknowledged through the efforts which the Polish authorities are undertaking. These need to be substantially stepped up.

In the *fisheries* sector, there has been a moderate degree of alignment. Some further legislative progress has occurred and there have been efforts to reinforce the administrative capacity at the central level, although the capacity at the regional level continues to be weak. Greater effort needs to be put into meeting the objectives set out in the Action Plan.

In the *social* field, the degree of alignment varies considerably between sectors. The capacity to implement the *acquis* has received some attention but this needs to be intensified. Additional efforts continue to be required, in particular to further align and implement the EC labour law and the *acquis* on occupational health and safety. Adoption of the pending legislation would do much to further alignment in this area. There have been further developments with regard to legislation in the area of *regional policy*. Specific attention is required to carry through in a timely manner the implementation plans and further reinforce the administrative capacity including strengthening inter-ministerial co-operation and partnership. To this end the objectives set out in the Action Plan should be realised as soon as possible. Particular attention needs to be paid to the technical preparation of projects eligible for Community funding. Existing implementation and administrative capacity plans, including the increase of personnel in the managing and paying authorities, should be implemented with due vigour.

In the area of *environment*, further progress has been made in terms of primary legislation, where there is a high level of alignment. The adoption and implementation of the necessary implementing legislation, and the accompanying administrative capacity, especially at the regional level, is required; given the limited strength of administrative capacity the implementation of the objectives set out in the Action Plan should be one focus of attention. Ensuring adequate investment, as set out in the environmental investment plans, is also essential.

The *energy* sector has a good level of alignment and the administrative capacity is adequate. Work to further align the existing legislation with the *acquis* is required, in particular on the internal energy market (notably gas). In the *transport* sector there is also a good level of alignment. The focus of attention should now be on putting in place the necessary implementing legislation and strengthening the administrative capacity to implement this legislation. The Action Plan sets out a range of objectives in this respect.

There has been further progress in *justice and home affairs*, especially with regard to the border guards and border management. There has been a continuation of efforts to improve the situation with regard to law enforcement bodies dealing with the fight against organised crime and drugs, in particular the police services. These need to be intensified and adequate resources, financial as well as human, allocated to implement

the Schengen Action Plan and other strategies so as to ensure that the necessary administrative capacity is in place to implement the *acquis*. In overall terms alignment with the *acquis* is good but administrative capacity has not progressed to the same extent.

Further legislative progress has been noted in terms of internal *financial control* where there is now a reasonable level of alignment with the *acquis*. The challenge continues to be to put in place the necessary control mechanisms by completing alignment (PIFC and protection of EC financial interests), by completing and strengthening the required institutional structure, and by moving forward substantially on the management of pre-accession funding and the establishment of the necessary structures and adequate administrative capacity for the implementation of the future structural funds, in particular regarding internal financial control. This will require the full and vigorous implementation of the Action Plan.

There continues to be some disparity between progress in the adoption of legislation and the reinforcement of administrative capacity. Continued efforts are needed to set up or strengthen administrative capacities across the board, notably on market surveillance, agriculture and food safety, fisheries and regional policy, the social field, environment, customs and justice and home affairs. Particularly close attention is required regarding the structures necessary to implement those parts of the *acquis* which will become applicable only from the date of accession, with a special focus on those parts which are essential for the sound and efficient management of EC funds.

In the accession negotiations, 27 chapters have been provisionally closed. Poland is generally meeting its commitments made in the negotiations. However, delays have occurred in the areas of agriculture (implementation of the animal identification and registration system), fisheries (adoption of legislation related to resource management, inspection and control, and in the area of market policy), environment (adoption of implementing legislation with regard to water quality, industrial pollution control and risk management, and chemicals). These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Poland has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Poland will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Poland needs to continue its preparations in line with the commitments it has made in the accession negotiations.

## **Romania**

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

The launch of a major programme of administrative reform is an important development and ensuring the successful implementation of these reforms should be considered as a priority. Significant progress was also made with the decision to demilitarise the police. This will increase the public accountability of police officers - although further actions

are needed to ensure the proportionality of their actions. New institutional structures have been created for fighting corruption, which remains a cause for very serious concern, but they have yet to have an impact.

Romania still needs to improve the decision making and legislative processes. In particular, the Government's reliance on emergency ordinances should be reduced and parliament's ability to scrutinise legislation increased. Reform of the judiciary has been limited. A lack of resources means that the judicial system is severely strained and the executive's involvement in judicial affairs has not been reduced in practice. In order to address these issues, judicial reform should be made a political priority and a comprehensive strategy to improve the functioning of the judicial system should be drawn up.

Romania continues to respect human rights and freedoms. It has made significant progress with child protection, reducing the number of children in residential care and improving actual living conditions. Progress has also been made in promoting equal opportunities between men and women, with developing structures to reduce trafficking in human beings and with setting up the institutional framework to fight discrimination. The development of a probation system has continued although prison conditions remain extremely poor. Additional steps need to be taken to strengthen safeguards for freedom of expression.

Positive developments took place with regard to the treatment of minorities. Legislation extending the official use of minority languages was implemented relatively smoothly. Important steps were taken to implement the National Strategy for Improving the Condition of Roma, with the aim of effectively combating discrimination and improving living conditions, although additional financial resources will be necessary to make further progress.

Romania has continued to make progress towards being a functioning market economy, for which the prospects have improved. Sustained and full implementation of planned measures together with the completion of the reform agenda should allow Romania to be able to cope with competitive pressure and market forces within the Union in the medium term.

Some significant gains on macroeconomic stabilisation have been achieved over the last years. A more appropriate policy-mix is decreasing inflation, while growth has resumed and the external position remains sustainable. Considerable progress has been made on the creation of the necessary market institutions. The ongoing overhaul of the banking sector, the successive improvements in the supervisory and regulatory framework for the financial markets and the advances in privatisation have progressively tightened enterprises financial discipline. Price and trade liberalisation coupled, over the last year, with a significant adjustment of energy tariffs and important reforms of the tax system have set the stage for a more efficient allocation of resources. Restructuring is advancing in a number of sectors.

To build upon this progress, the authorities should give priority to establishing a track record on macroeconomic stabilisation grounded on further disinflation, by maintaining an appropriate policy mix and underpinning it with the enforcement of enterprises' financial discipline. Commitments to restrict the total wage bill in the public sector should be respected. The recent sharp growth in money supply and credit requires careful

monitoring and a readiness to take prompt actions. Establishing enterprises' financial discipline requires improved tax administration and compliance, a consistent and transparent implementation of the latest measures to reduce the arrears of energy users, a determined and transparent use of the recently approved legal provisions for accelerating privatisation, and a readiness to liquidate loss-making enterprises. Completing privatisation in the banking sector, continuing the reform of public expenditures and budgetary procedures, and ensuring the implementation of improved regulatory and legal frameworks would also support the establishment of a functioning market economy and the development of Romania's capacity to cope with competitive pressure and market forces within the Union.

Since the 1997 Opinion, Romania has made steady progress with the adoption of the *acquis*. However, in many areas, there has been an increasing gap between progress in legal transposition and the limited ability of the Romanian administration to implement and enforce the newly adopted legislation.

Over the last year, Romania has accelerated the process of legislative transposition and has continued work, albeit at a slower pace, on developing the administrative structures required by the *acquis*.

Overall, and in view of Romania's target date for accession, Romania's progress has been reasonable and national legislation has been aligned with the *acquis* in many areas. Administrative capacity building will require a comprehensive, structural reform of both the public administration and the judicial system.

In the area of the internal market, framework legislation on the New and Global Approach has allowed accelerated alignment with the sector-specific *acquis* on *free movement of goods*. Considerable progress has also been made in the establishment of bodies to administer the *acquis*. Further efforts should concentrate on improving standardisation and certification, on reinforcing market surveillance systems, on restructuring the food control system, and on effectively implementing public procurement legislation. The foundations for future progress with the *free movement of persons* have been laid, although further transposition is necessary to address shortcomings in the area of mutual recognition and administrative capacity should be strengthened in all areas. Considerable efforts have been made to facilitate the *free movement of services*, although the newly developed institutional framework for supervising financial services still needs to be supported. Liberalisation has continued in the area of *free movement of capital* and Romania is committed to a timetable for dismantling exchange controls and other restrictions on capital movements. Further efforts are particularly needed to revise the legal framework in the area of money laundering. Romania has aligned with most of the *acquis* on *company law*, although the level of piracy and counterfeiting remains a serious problem and enforcement should be improved. In the area of *competition policy*, some progress has been made with the transposition of the *acquis*, mainly in the field of anti-trust, but Romania's enforcement record in respect of both state aid and anti-trust needs to be improved. The restructuring of the steel sector will need to be closely monitored.

Romania has made steady progress towards alignment with the *taxation acquis* although further adjustments are needed and the ability to implement and enforce tax legislation remains limited. Despite a high level of harmonisation with the *customs acquis*, further legislative alignment is needed as are efforts to reduce levels of corruption within the customs administration. Work should continue on developing IT systems to allow the

exchange of computerised data between Romania and the EC. In order to develop a successful *industrial policy* and to promote *SME* development further efforts are needed to simplify and stabilise the business environment.

Alignment with the *acquis* on *agricultural policy* has accelerated, although legislative developments have not yet been matched by the development of administrative structures able to effectively implement the *acquis*. Structural reforms have only been slowly introduced. Inspection arrangements should be improved in the phytosanitary sector and, even more urgently, in the veterinary sector. In the area of *fisheries*, Romania has adopted the necessary framework legislation, although there have been delays in the establishment of the required administrative structures.

On *social policy and employment*, some progress has been made but considerable further work remains on legal transposition in the areas of labour law, equal opportunities, and health and safety at work.

Progress with *regional policy* has been slower and Romania does not yet have a clear and consolidated cohesion policy. Work has begun on developing administrative capacity, but continued efforts are needed to design management and implementation systems.

Romania's progress in the *transport* sector has been mixed: good with regard to road and railway transport, reasonable in the area of aviation, but only limited in the case of maritime safety. The key issues facing Romania are developing institutions able to enforce recently adopted legislation and securing the funding to make the heavy investments required by the *acquis*. Despite progress in terms of legislative alignment, many structural issues still have to be addressed in the *energy* sector and new operating structures need to be consolidated. Despite having transposed a considerable amount of *environmental* legislation, Romania has neither the administrative nor the financial resources to implement it. Future efforts should focus less on legislative alignment and more on developing implementation capacities as well as securing resources for environmental investments. Alignment with the *consumer protection acquis* has continued and implementation structures are in place - although inter-institutional co-operation should be improved.

Steady progress has been made with aligning with the *telecoms acquis* and progress has been made with preparing for the liberalisation of the communications and postal markets. Future efforts should focus on developing the newly established regulatory administration into a truly efficient and independent body, and on the evaluation of the economic implications of full implementation of the universal service *acquis*.

Romania has started to make structural reforms in the area of *justice and home affairs*, although a considerable amount of work remains to be done on legal approximation and above all on strengthening administrative and judicial capacity. Despite recent reforms, including the adoption of a Schengen Action Plan, the efficiency of all police forces is limited and border infrastructure and management need to be improved. Major efforts are required to increase the efficiency of the judiciary.

In the area of *external relations*, trade barriers have been progressively eliminated, and Romania has achieved a generally high level of alignment with the *acquis*.

Progress has been made with regard to *financial control* and modern systems of financial management and control are being introduced. Further work is necessary to protect the Communities' financial interests, administrative capacity needs to be strengthened with regard to public internal financial control, and the independence of the Court of Audit should be guaranteed.

The overall *capacity of the public administration* to implement the *acquis* remains limited and represents a major constraint on Romania's accession preparations. While certain parts of the administration are able to function effectively there are many important sectors where the weakness of the administration is a serious cause for concern. These concerns extend beyond adoption of the *acquis* and also apply to the management of EC financial assistance. This issue is beginning to be addressed by the Government which has announced a major reform programme. However, these reforms are only at the design stage and still need to be carried out.

In the accession negotiations, 13 chapters have been provisionally closed. The commitments made in the negotiations are with a view to accession in 2007 and are generally being met.

### **Slovakia**

Whereas the 1997 Opinion and the 1998 Regular Report concluded that Slovakia did not fulfil the political criteria, the 1999 Regular Report came, for the first time, to a positive evaluation in this respect. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. This has been confirmed over the past year. Slovakia continues to fulfil the Copenhagen criteria.

Progress was achieved with regard to the structure and functioning of the administration, notably by setting up a Civil Service Office and building up decentralised, regional administrations. Delays have occurred in implementing the Civil Service Law. The proper functioning of the self-administration may be hampered, as the transfer of competencies from state to regional level is not going hand in hand with fiscal decentralisation.

Further important steps were taken to strengthen the independence of the judiciary. In particular, further key legislation was adopted and a Judicial Council was set up. The new legislation and institutions should be used to the full, so as to guarantee the judiciary's professional impartiality and political neutrality.

Some progress can be noticed in the fight against corruption, which remains a cause for serious concern, notably by further implementing the relevant action plans and drawing codes of ethics for the public sector. These efforts must be continued.

Slovakia continues to respect human rights and freedoms.

In particular, legislation and administration was reinforced to fight trafficking in human beings. A new Asylum Act was adopted, providing, *inter alia*, for the establishment of an independent body to act as the second instance in the asylum procedure.

Considerable efforts were made in further developing and putting into practice approaches to protect minority rights. In particular, the Office of the Government Plenipotentiary for Roma affairs was strengthened and the relevant strategy enhanced and financial means increased. These efforts must be continued and reinforced as a matter of priority, to effectively combat discrimination and improve the living conditions of the Roma community. The adoption of comprehensive anti-discrimination legislation would be an important step forward in this regard.

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

Hence, it is concluded that the Slovak Republic is a functioning market economy. The continuation of its current reform path should enable the Slovak Republic to cope with competitive pressure and market forces within the Union.

Improvements can be made to the macroeconomic situation, which requires urgent measures to reduce both the fiscal and current account deficits. Expenditure reforms, in particular in the health and pension area and as regards subsidies and guarantees, are essential. The unemployment problem necessitates a whole range of structural reforms, including the elimination of disincentive effects in the social protection system and a more flexible labour legislation. Supervision of the financial sector can be further strengthened. The effective implementation of the legal framework for a market economy needs to be further enhanced.

Since the Opinion, Slovakia has made very good progress in legislative alignment and, increasingly, in strengthening administrative capacity. Structural weaknesses, which persist in a number of areas like company law, transport policy, environment and financial control, have been continuously remedied to a large extent.

Over the past year, Slovakia has further advanced in aligning with the *acquis* and strengthening its administrative capacity. Particular progress has been achieved in the areas of free movement of goods, freedom to provide services, agriculture, transport, energy, environment, and justice and home affairs. Sectors, in which only limited progress was made in the reporting period include regional policy and co-ordination of structural instruments.

Overall, Slovakia has achieved a high degree of alignment with the *acquis* in many areas and is reasonably well advanced towards reaching adequate administrative capacity to implement the *acquis* in a considerable number of fields, although further efforts remain to be made. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Concerning the *internal market*, Slovakia has achieved a good degree of alignment and is relatively well advanced in having appropriate administrative capacities in place. As regards *free movement of goods*, alignment is largely complete and administrative capacity broadly in place. Slovakia's standardisation and accreditation bodies function well. The focus needs to be put on the outstanding transposition of the foodstuffs *acquis*

and the strengthening of the related administrative structures. In particular, an appropriate market surveillance infrastructure still needs to be fully set up and structures for public procurement need to be reinforced. In the area of *freedom of movement of persons*, where preparations are generally well advanced, legislation for the mutual recognition of qualification, in particular, must be completed and the administrative capacities for the future co-ordination of the social security systems need to be reinforced. Concerning *freedom to provide services*, good progress has been achieved in the field of financial services over the past year. Despite an advanced level in this area, Slovakia needs to concentrate its efforts on completing alignment, notably in the insurance sector, and strengthening the administrative structures, in particular with respect to financial supervision. Alignment in the area of *free movement of capital* is well advanced; Slovakia needs to focus, in particular, on reinforcing administrative capacities to fight money laundering.

As regards *company law*, Slovakia has reached a good level of alignment and is relatively well advanced in terms of administrative preparations. Over the past year, legislative progress can be particularly noted in the field of trademarks, design and patents. Administrative structures to combat piracy and counterfeiting need to be reinforced. Concerning *competition policy*, a good level of alignment has been achieved, and operational administrative structures put in place. Over the past year, a considerable track record of enforcement in the State aid area has been built up. However, in the steel sector, state aid granted in Slovakia is not compatible with Protocol 2 of the Europe Agreement. Administrative capacities in this field, as well as in the area of anti-trust, however, need to be further reinforced.

As regards *agriculture*, Slovakia is advanced in transposition and implementation of the *acquis*. Over the past year, in particular, good legislative alignment has been achieved in the phytosanitary and veterinary area. Administrative strengthening requires further attention. Efforts are required for the construction and proper functioning of the Border Inspection Posts and food processing establishments need to be upgraded. Serious efforts are needed to ensure that a fully functional Integrated Administration and Control System (IACS) is put in place. A timetable has been drawn up to remedy the identified shortcomings for the IACS.

Legislative alignment and administrative preparation in the area of *energy* are advanced. Overall administrative capacities need to be further strengthened. As regards nuclear energy, Slovakia has committed itself to close the two Bohunice V1 reactors by 2006 and 2008 respectively. Slovakia should refine its project pipeline to ensure satisfactory projects for the decommissioning of the two reactors. In *transport policy*, Slovakia has aligned with the *acquis* to a considerable extent and significant steps have been undertaken to strengthen the administrative capacities. Alignment, in particular in the area of rail transport and inland waterways, needs to be completed. Co-ordination between the different ministries and bodies involved in this sector has to be improved.

With respect to *taxation*, Slovakia has reached a good level of alignment and the reform of its tax administration is ongoing. Alignment both in the areas of direct and indirect taxation remains to be completed. Modernisation and strengthening of the tax administration needs to be reinforced as the general tax collection remains weak. Slovakia has a comprehensive and consistent reform agenda in place to address the identified shortcomings. As regards *customs union*, Slovakia has completed its legislative

alignment and has, in principle, developed and reinforced the necessary administrative capacity. Attention should continue to be paid to the enforcement of the transposed legislation. Considerable efforts on IT systems to allow for the exchange of electronic data with the European Community and its Member States have been made in the taxation and customs areas, but these still require further work.

Alignment in the area of *telecommunications and information technologies* has reached a high level and administrative structures are being put in place, though completion of legislative alignment and further strengthening of administrative structures as well as proper separation of regulatory and operational functions are needed. The evaluation of the economic implications of full implementation of the universal service *acquis* is awaited.

In the field of *social policy and employment*, Slovakia is advanced in terms of legislative alignment. Administrative structures are mostly in place, but require further strengthening. There is a particular need to co-ordinate the supervision and enforcement of the transposed health and safety *acquis*. Administrative preparations for the future management of the European Social Fund need to be reinforced.

Slovakia has aligned with the *acquis* in the area of *regional policy and co-ordination of structural instruments* but effective administrative structures are only in place to a limited extent. Over the past year, the management structures and paying authority for the implementation of the Structural Funds and Cohesion Fund have been designated. A clear definition of the final implementation structure, however, is missing. There is a substantial need to reinforce the administrative capacities in this area. The technical preparation of projects eligible for Community funding has to be considerably improved. The remaining administrative weaknesses have been identified in the commitments made in the framework of the negotiations as well as in the Action Plan, and the necessary steps are being taken to remedy these shortcomings. Ongoing efforts need to be substantially stepped up.

Concerning the *environment*, Slovakia is advanced in alignment with the *acquis* and in having the necessary administrative capacity to implement it. Slovakia has recently increased its environmental investment significantly. Efforts need to focus now on finalising transposition, in particular in the area of Integrated Pollution Prevention and on implementation in the area of Control and Discharge of Dangerous Substances, as well as on strengthening administrative capacities. As regards *consumer protection*, legislative alignment and administrative strengthening is advanced but not yet completed.

With respect to co-operation in the fields of *justice and home affairs*, Slovakia is to a considerable extent aligned with the *acquis* and administrative structures are generally in place. Implementation of the Schengen Action Plan is progressing well. The focus needs now to shift to strengthening implementation of the transposed *acquis* and to further reinforcing administrative capacities, in particular in the areas of border control and the fight against illegal immigration and crime.

As regards *financial control*, Slovakia is advanced with regard to legislative alignment and the necessary institutional structures are being put in place. It needs to pay attention to strengthening and building up the necessary administrative capacity, notably in the area of public internal financial control. Concrete actions have been planned and are being implemented to remedy the identified shortcomings. Efforts should be stepped up.

Concerning the *administrative capacity*, Slovakia has largely achieved a sufficient, though still rather fragile, capacity to ensure effective implementation and enforcement of the *acquis*, notably in the area of the internal market and the various Community policies. Slovakia needs to ensure the full operation of the administrative structures, in particular with a view to guaranteeing the uniform and predictable implementation of the *acquis*. Particularly close attention is required regarding the structures necessary to implement that part of the *acquis* which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds.

In the accession negotiations, 27 chapters have been provisionally closed. Slovakia is generally meeting the commitments it has made in the negotiations.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Slovakia has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Slovakia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Slovakia needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

### **Slovenia**

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

Slovenia has made considerable progress on public administration reform by adopting the laws on civil servants, public agencies and state administration. With the adoption of these laws, the framework legislation for public administration reform is now in place. It is important that these laws are now fully implemented.

Reform of the judiciary has continued through legislative changes and the adoption of measures aimed at abolishing the backlog of pending court cases. Slovenia has recognised the need to improve the situation further.

Slovenia continues to respect human rights and freedoms.

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

Hence, it is concluded that Slovenia is a functioning market economy. The continuation of its current reform path should enable Slovenia to cope with competitive pressure and market forces in the Union.

Improvements can be made on reducing the inflation rate by the further elimination of indexation schemes and by directing the macroeconomic policy mix more convincingly towards inflation reduction. The competitiveness of the economy would be supported by speeding up structural reforms, such as the final liquidation of the Slovene Development Corporation and further privatisation in the financial sector.

Since the Opinion, Slovenia has made very good progress in transposition and implementation of the *acquis* as well as in developing the institutions needed for implementing and enforcing the *acquis*.

Over the past year, Slovenia has further advanced, especially in the areas of free movement of persons, fisheries, Economic and Monetary Union, employment and social policy, regional policy, environment and financial control. Limited further progress has been made in the area of consumers and health protection.

Overall, Slovenia has achieved a high degree of alignment with the *acquis* in most areas, and is well advanced concerning the administrative capacity needed to implement the *acquis*, although further efforts are still needed. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Slovenia is well advanced in legislative alignment concerning the key areas of the internal market and most of the institutions have been established and are functioning well. Concerning *free movement of goods*, Slovenia is well advanced in legislative alignment and in ensuring functioning of the institutions. However, some *acquis* still remains to be transposed, especially on foodstuffs and some other areas of sectoral legislation, as well as on public procurement. The new institutes for standardisation and certification function well and their administrative capacity should be further reinforced and market surveillance systems strengthened. Following the adoption of important legislation in the past year, the legislative framework for *free movement of persons* is almost complete. However, some fine tuning is needed on mutual recognition, and alignment on citizen's rights needs to be completed by accession. The Slovenian legislation in the area of *freedom to provide services* is largely aligned with the *acquis*, and should now be completed; administrative capacity should be enhanced further, including concerning supervision of financial services. The level of preparations for membership in the area of *free movement of capital* is advanced, and further progress was made in the past year through adoption of new legislation and through lifting of several restrictions on money transactions. Due attention should be given to the delay in removing restrictions on foreign direct investment concerning investment funds and management companies, and preparations for accession in the area of payments systems remain to be completed. The situation in the area of *company law* is good in Slovenia, however, further efforts should be made to complete the legislative alignment process and efforts to ensure enforcement of intellectual property rights should continue. Concerning *competition policy*, Slovenia's preparations are reasonably advanced and it should now focus on completing the legislative alignment process and on establishing a good track record on enforcement with a view to ensuring efficient competition in the Slovenian market.

Legislative alignment has continued in the *taxation* area and Slovenia's legislation is almost fully aligned with the *acquis*. Slovenia should now focus on completing alignment. Slovenia has reached a high level of alignment in the *customs* area and should now focus on removing remaining inconsistencies with the *acquis* and on further

strengthening of the administration through the ongoing reform. IT systems should be further developed in both areas so as to allow for exchange of computerised data between the EC and Slovenia.

Slovenia has continued to make steady progress in the *agriculture* area, especially on veterinary and phyto-sanitary issues, through adoption of new legislation, establishment of several new institutions and through accreditation of the SAPARD Agency. Good progress has been made in upgrading food establishments. Slovenia should now focus on further strengthening the administrative capacity, completion of the Common Agricultural Policy management mechanisms; and setting up of adequate phyto-sanitary and veterinary inspections, in particular at the borders, and ensuring their proper functioning.

Slovenia has made good progress in the *fisheries* sector, and the situation is in general satisfactory. Efforts in this sector should focus on adopting the outstanding legislation, and on further reinforcing capacity for implementation and enforcement.

Further progress has been made in the *transport* sector through the setting up of new institutions. The overall situation in this area is good, although some delays have occurred in the rail sector. Slovenia should now focus on completing legislative alignment and strengthening the administrative capacity. Preparations for membership in the *energy* sector have continued and are advanced. Administrative capacity needs to be strengthened further, in particular as regards the regulator and the nuclear safety authority. The latter body needs to be made *de iure* independent from the promotion of nuclear energy.

Slovenia has made very good progress since the last Regular Report in designating the structures responsible for implementing *regional policy* and preparations for implementation of structural and cohesion funds are well on track. These should be continued, including the technical preparation of projects eligible for Community funding. Legislative alignment has advanced considerably in the past year in the area of *employment and social affairs*, notably through the adoption of the Employment Relations Act. The overall situation in this area is good and efforts should now focus on strengthening the implementation capacity for the *acquis* on occupational health and safety, including the strengthening of labour inspectorates.

The level of alignment in the *environment* area is high following the adoption of important new legislation in the past year. Slovenia should now focus on completing transposition of horizontal legislation, transposition of the delayed Integrated Pollution Prevention and Control directive and to securing sufficient investments to ensure the implementation of the environment *acquis*. Although the level of alignment in the area of *consumers and health protection* is advanced, alignment still needs to be completed and administrative capacity improved.

Good progress was made in the past year in the *postal* sector through adoption of the Postal Act and preparations for accession are well on track. Attention should now be focussed on increasing competition in the *telecommunications* area. The level of preparedness in the *culture and audio-visual* sector is good, however, Slovenia should complete legislative alignment and strengthen the institutions.

Slovenia has continued to make good progress in preparing for accession in the area of *justice and home affairs*, especially by setting up new institutions. Legislative alignment is advanced but remains to be completed, especially on asylum and migration. The institutions should be strengthened further and Slovenia should continue its efforts to upgrade capacity and infrastructure for border management in accordance with the Schengen Action Plan, especially at what will become the Union's external border.

Very good progress has been made since the last Regular Report on *financial control* and the preparations for membership are well advanced in this area. Slovenia should now focus on effective implementation and ensuring the planned strengthening of administrative capacity on public internal financial control.

Slovenia's administrative capacity for the implementation of the *acquis* has been enhanced further in the reporting period. Most of the institutions necessary for the implementation of the *acquis* are now in place and attention should be focussed on providing them with sufficient resources to carry out their work. Slovenia should continue its efforts to improve the administrative capacity, in particular in the areas of freedom to provide services, agriculture, fisheries, rail transport, energy, telecommunications, culture and audio-visual, environment, consumers and health protection, and justice and home affairs. Special attention should be given to the structures necessary to implement the *acquis* which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds.

In the accession negotiations 28 chapters have been provisionally closed. Slovenia is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to removing restrictions on foreign direct investment concerning investment funds and management companies, the establishment of the Fishing Vessel Register, creating the legislative basis for restructuring of the railways and transposition of the Integrated Pollution Prevention and Control directive. These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Slovenia has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Slovenia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Slovenia needs to continue its preparations in line with the commitments it has made in the accession negotiations.

## **Turkey**

The decision on the candidate status of Turkey in Helsinki in 1999 has encouraged Turkey to introduce a series of fundamental reforms. A major constitutional reform was introduced in October 2001 aimed at strengthening guarantees in the field of human rights and fundamental freedoms and restricting the grounds for capital punishment. A new Civil Code was adopted in November 2001. Three sets of reform packages were adopted in February, March and August 2002. The death penalty has been lifted in peacetime. The state of emergency has now been lifted in two provinces in the South East and the decision has been taken to lift it in the two provinces where it still applies by the end of this year.

The adoption of these reforms is an important signal of the determination of the majority of Turkey's political leaders to move towards further alignment with the values and standards of the European Union. The August reforms were adopted under difficult political and economic circumstances and are particularly significant as they impinge upon traditionally sensitive issues.

The reform of the prison system continued, and progress was made in terms of improving physical conditions. Monitoring Boards and the new system of enforcement judges are now operational. A number of recommendations of the European Committee for the Prevention of Torture (CPT) are being implemented. However, despite progress, certain problems remain with conditions in F-Type prisons.

The reduction in the length of pre-trial detention (police custody) periods is a positive development in the context of the fight against torture. However, the lack of immediate access to a lawyer means that incommunicado detention for prisoners convicted under State Security Courts continues. Longer periods of custody still apply in the areas under the state of emergency. There have been continued allegations of torture and ill-treatment and little progress in the prosecution of those accused of such abuses.

The reform package of August provides for the retrial of persons whose convictions have been found by the European Court of Human Rights to be in violation of the European Convention on Human Rights and Fundamental Freedoms.

The change made to Article 159 of the Turkish Penal Code means that the expression of opinion without the "intention" of "insulting" public institutions will no longer face criminal sanction. Changes to Articles 312 of the Penal Code and to the Anti-Terror Law, the Press Law, the Law on Political Parties and the Law on Associations eased certain restrictions on freedom of expression, association, the press and broadcasting.

The August package removed some restrictions in the law on broadcasting which had been readopted by Parliament in May following the president's veto. However the prosecution of writers, journalists and publishers has continued.

Progress has been made in the area of freedom of association where the law on associations has been modified and some restrictions lifted. Various grounds for banning associations remain, however.

The generally restrictive character of the Law on Associations remains, including the prior authorisation system. Foreign associations in Turkey are subject to certain limitations and strict controls.

As part of the August package, broadcasting and education in languages other than Turkish have now been authorised. Although the Law on Foundations has been amended, religious minorities continue to face limitations regarding legal personality, property rights, training of clergy and education.

The new Civil Code includes provisions aimed at improving gender equality and strengthening guarantees regarding the protection and rights of the child. Turkey ratified the 1969 UN Convention on the Elimination of All Forms of Racial Discrimination. However, trade unions remain subject to restrictions and child labour persists. The

legislation which allows for reduced sentences for crimes related to "honour killings" is still applicable.

Reform of the judicial system has continued. The competence of the State Security Courts has been narrowed and the period of pre-trial detention reduced. The functioning of these Courts, though, is still not in line with international standards. There are continued reports that the judiciary does not always act in an independent and consistent manner. Training courses in human rights have taken place for judges and law enforcement officials.

A number of initiatives to foster more transparency in Turkey's public life have been taken in the last year. Nonetheless, corruption remains a serious problem. The relevant Conventions of the Council of Europe have not yet been ratified.

The lifting of the state of emergency in two provinces of the South East has led to an improvement in the conditions of daily life there. The protection of human rights in the region needs to be strengthened.

The constitutional amendment introducing changes to the composition and role of the National Security Council has been put into practice. Nonetheless, these changes do not appear to have modified the way in which the National Security Council operates in practice.

Turkey has continued to express support for direct talks between the leaders of the two communities in Cyprus to achieve a comprehensive settlement of the Cyprus problem. The EU, in line with statements issued by the United Nations Security Council, has emphasised the need for Turkey to take further steps to encourage the Turkish Cypriot leadership to work towards reaching a settlement before the end of accession negotiations.

Relations between Turkey and Greece have continued to improve. Efforts are continuing to put in effect new confidence building measures. Exploratory contacts on the Aegean between the two foreign ministries started in March 2002.

Overall, Turkey has made noticeable progress towards meeting the Copenhagen political criteria since the Commission issued its report in 1998<sup>8</sup>, and in particular in the course of

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<sup>8</sup> In its Report of 1998, the Commission concluded that: "On the political side, the evaluation highlights certain anomalies in the functioning of the public authorities, persistent human rights violations and major shortcomings in the treatment of minorities. The lack of civilian control of the army give cause for concern. This is reflected by the major role played by the army in political life through the National Security Council. A civil, non-military solution must be found to the situation in south-eastern Turkey, particularly since many of the violations of civil and political rights observed in the country are connected with this issue. The Commission acknowledges the Turkish government's commitment to combat human rights violations in the country but this has not so far had any significant effect in practice. The process of democratic reform on which Turkey embarked in 1995 must continue. In addition to these problems, Turkey must make a constructive contribution to the settlement of all disputes with various countries by peaceful means in accordance with international law." Issues such as civilian control over the military, persistent human rights violations, torture as well as lack of protection for cultural rights have been mentioned in the subsequent reports.

the last year. The reforms adopted in August 2002 are particularly far-reaching. Taken together, these reforms provide much of the ground work for strengthening democracy and the protection of human rights in Turkey. They open the way for further changes which should enable Turkish citizens progressively to enjoy rights and freedoms commensurate with those prevailing in the European Union.

Nonetheless Turkey does not fully meet the political criteria. First, the reforms contain a number of significant limitations, which are set out in this report, on the full enjoyment of fundamental rights and freedoms. Important restrictions remain, notably, to freedom of expression, including in particular the written press and broadcasting, freedom of peaceful assembly, freedom of association, freedom of religion and the right to legal redress.

Secondly, many of the reforms require the adoption of regulations or other administrative measures, which should be in line with European standards. Some of these measures have already been introduced and others are being drawn up. To be effective, the reforms will need to be implemented in practice by executive and judicial bodies at different levels throughout the country.

The Commission considers that the decision of the High Electoral Board to prevent the leader of a major political party from participating in the November 3 General Elections does not reflect the spirit of the reforms.

Thirdly, a number of important issues arising under the political criteria have yet to be adequately addressed. These include the fight against torture and ill-treatment, civilian control of the military, the situation of persons imprisoned for expressing non-violent opinions, and compliance with the decisions of the European Court of Human Rights.

In the light of the noticeable progress made in recent years and of the remaining areas requiring further attention, Turkey is encouraged to pursue the reform process to strengthen democracy and the protection of human rights, in law and in practice. This will enable Turkey to overcome the remaining obstacles to full compliance with the political criteria.

Turkey has made progress on the functioning of its market economy which should improve its capacity to cope with competitive pressure and market forces within the Union, but is still undergoing the consequences of the two deeply destabilising financial crises.

After several attempts to stabilise the economy, the current reform programme is producing positive results and growth has resumed. Fiscal discipline has improved and the transparency of public sector accounts has increased markedly, while inflationary pressures are declining. Political interference, a main source for Turkey's economic instability, has been reduced and structural weaknesses, such as a fragile and distorted banking sector, are being addressed. Financial market regulation and supervision have been strengthened. Important steps have been taken to liberalise key markets, such as agriculture and energy.

To improve the functioning of its markets and its competitiveness, Turkey needs to continue the present reform process in order to achieve macroeconomic stability and fiscal sustainability. Further reducing chronically high inflation and maintaining fiscal

discipline are important pre-conditions to this end. Prudential and accounting standards in the banking sector have to be brought in line with international norms. The privatisation of state banks and enterprises has to be accelerated and the market deregulation completed. Increasing investment into productive uses and devoting particular attention to education is important to increase the competitiveness and the growth potential of the economy. The inflow of FDI has to be encouraged by simplifying bureaucratic procedures and by removing remaining barriers.

Since the 1998 Report, Turkey has made progress in aligning legislation in the areas covered by the Customs Union. Progress has also been achieved in areas such as the banking sector, telecommunications, energy and agriculture. The financial sector has been restructured and administrative capacity in this field has been streamlined. Little progress has been achieved in other areas.

Over the past year, Turkey has further advanced in the areas of internal market, notably in the field of public procurement, as well as in the areas of energy and justice and home affairs. Progress in strengthening administrative capacity to implement the *acquis* has been limited.

Overall, Turkey has achieved a good degree of legislative alignment in the areas covered by the Customs Union, while in other areas this alignment is less advanced. Major discrepancies between the *acquis* and Turkish legislation remain. Administrative capacity needs to be strengthened. Considerable further efforts are needed.

Regarding the internal market, in the area of *free movement of goods*, the framework law on the free circulation of products adopted in 2001 has entered into force. Various pieces of implementing legislation have been adopted throughout a wide range of sectors. Substantial *technical barriers to trade* remain. Harmonization activities in sectors such as foodstuffs, pharmaceuticals and cosmetics should continue. Substantial work also remains to be done to establish and improve the functioning of various bodies (standardization, accreditation, and conformity assessment). An appropriate market surveillance system should be established. Despite the adoption of the Framework Law, pre-market surveillance is still in force. Current efforts focus on training of staff and improving the equipment capacity of the relevant bodies. On public procurement, a new law was adopted in May and subsequently amended in June 2002. The law is a significant step in the direction of aligning Turkey's public procurement rules with the Community *acquis*. Further efforts are needed to address substantial differences between the new law and the *acquis*. No progress can be reported in the field of *free movement of persons*.

In the field of *free movement of capital*, important restrictions on foreign investment in various sectors have remained. The implementation of legislation in the field of money laundering should be given greater attention. Turkey's alignment concerning *financial services* is well advanced, and further progress has taken place in 2001, in the framework of the reorganisation of the financial sector. In the field of non-financial services, there has been no progress, and much work still remains to be done in order to align Turkish legislation with the relevant *acquis*. In the area of *company law*, efforts have been made concerning the fight against piracy and counterfeiting. Implementation of the legislation should be further pursued and the Turkish Patent Institute needs to be fully independent. In the field of *competition policy*, the application of anti-trust provisions remains satisfactory. There has been no progress in aligning Turkey's state aid policy with the

*acquis* and an independent State aid authority should be established as a matter of priority.

On *agriculture*, Turkey has started the registration of land and of live bovine animals. Preparations for a plant passport system have not started. Other elements under the relevant priority of the Accession Partnership have not been addressed. Concerning veterinary and plant health, an alignment strategy is under development. No upgrading of enforcement capacity has taken place. Turkey should focus on the transposition, implementation and enforcement of EC legislation in the veterinary and phyto-sanitary sectors. Overall, progress on alignment with the *acquis* in the field of agriculture is limited.

On *fisheries*, no progress has been made in alignment with the Common Fisheries Policy. A modernized fleet registration system needs to be established. Major discrepancies with the main elements of the EC's fisheries policy remain, particularly on resource management, inspection and control and market and structural policies.

As regards *transport policy*, Turkey should step up the legislative work necessary to adopt the transport *acquis*. The administrative capacity to apply and implement the relevant legislation in all sectors should be improved. In many sectors (road and maritime transport in particular), alignment is very partial, resulting mainly from the transposition of international Conventions.

On *taxation*, alignment on excise duties and VAT has started and some progress has been achieved with respect to rates and other exemptions. In the area of indirect taxation, significant further efforts are needed. As for direct taxation, Turkey needs to improve direct tax collection and to eliminate discriminatory measures. Overall, alignment with the *acquis* in the field of direct and indirect taxation is partial. As regards *Customs Union*, there is a large degree of alignment on paper, but little effective alignment of practices.

In most fields, Turkey's *statistical* infrastructure is still very different from that of the EU. Co-operation between the Turkish authorities and Eurostat has started recently. Alignment with the *acquis* has started and substantial efforts are needed.

Steps have been taken in the field of *social policy and employment*, but are not always in full conformity with the *acquis*. There is an urgent need to develop and strengthen the conditions for a genuine social dialogue at all levels. While some progress has been made, in most areas Turkish legislation is still far from alignment with the *acquis*.

As regards *energy*, substantial progress has been achieved in the electricity and gas sectors. The two major laws adopted last year have been further implemented and progress has been achieved in establishing an independent regulatory authority for the electricity and gas sectors. Alignment with the *acquis* is well under way. However, further efforts are needed.

In the *telecommunications sector*, there has been no progress in liberalisation in mobile and fixed markets and the implementation of the legal framework with respect to the dominant operators. Progress has been achieved in adopting new legislation in the field of licensing, interconnection and to some extent on universal service. Further efforts are needed to improve the administrative capacity of the Telecom Authority, in particular in

relation to human resources and training. Overall, alignment with the *acquis* remains limited.

As regards *culture and audio-visual policy*, the new law on broadcasting is not in line with the *acquis*. Overall, alignment with the *acquis* remains limited.

As regards *regional policy*, the definition by Turkey of a provisional map for regional development purposes according to NUTS classification criteria has been completed and approved by EUROSTAT. However, the use of this classification for planning and regional policies has not yet started. No effective regional policy strategy in line with the EU standards has been developed. Overall, alignment with the *acquis* remains limited

In the *environmental field*, legislation to align with the Environmental Impact Assessment Directive has been adopted. Steps have been taken to develop a plan for financing investments. The adoption of a new Regulation on Environmental Inspection represents a positive step towards increasing Turkish administrative capacity to implement the *acquis*. Overall, alignment with the *acquis* remains limited

On *consumers and health protection*, alignment is limited and substantial efforts are needed to align the legislation and to reinforce administrative capacity and consumers' awareness.

In the field of *justice and home affairs*, efforts have been made to raise awareness on the legislation and practices of the EU, in particular in areas such as asylum and illegal migration. Further steps have been taken to strengthen the fight against organized crime, drugs trafficking and corruption. The legal basis for combating trafficking in human beings has been established. Alignment with the *acquis* has started, in particular on visa policy, but substantial further efforts are needed. The fight against illegal migration needs to be drastically strengthened.

Concerning *external relations*, the adoption of the Generalized System of Preferences should be pursued.

On *financial control*, budgetary and financial control mechanisms inside the Turkish administration should be improved. Overall, alignment with the *acquis* has started and substantial further efforts are needed.

Administrative capacity in different areas needs to be strengthened to ensure that the *acquis* is implemented and enforced effectively. Significant reform at all levels of the administration is required. In some cases, this will entail the establishment of new structures, for example in the field of state aid and regional development. In some areas, new regulatory bodies have been set up. Their autonomy should be assured while at the same time sufficient staff and financial resources need to be made available.

## ANNEX 2 : THE CHAPTER “OTHER MATTERS”

The chapter on “other matters” will not be treated as the other negotiating chapters. It essentially constitutes a negotiating box in which a number of elements, which are largely uncontroversial but do not have their place in the other negotiating chapters, can be placed.

First, the Accession Treaty will need to provide for the rules applicable to the management and phasing out of pre-accession funds. Altogether, some € 5 billion of funds under the ISPA, SAPARD and PHARE programmes up to the end of 2003 will have been committed for the new Member States but will still need to be contracted or at least paid until the end of 2006. Whereas ISPA and SAPARD will be continued in a similar setting under the cohesion and rural development funds, PHARE funding will need to be phased out by 2006. Certain transitional arrangements including rules related to the further transfer of responsibility in the management of pre-accession aid to the new Member States in an extended decentralised implementation system (EDIS) (including human resources and conditions for the release of funds) will need to be included in the Accession Treaty. The release of PHARE funds should be made conditional on the implementation of the extended decentralised system by the acceding countries. For ISPA, in order not to discriminate the new Member States *vis-à-vis* current Member States, such an approach can not be implemented.

Second, the envisaged transition facility for certain institution building actions will need to be more closely defined. In order to implement these actions and since these actions are a continuation of activities under the PHARE programme, the Commission proposes to use the established structures for the years 2004 to 2006, i. e. the PHARE committee and to work through the established EDIS in the new Member States. In order to avoid overlap with the type of action which can in future be financed by the structural funds, the Commission proposes at this stage to limit institution building actions to the following:

- Justice and Home Affairs (strengthening of the judicial system, border controls, anti-corruption strategy);
- Internal Market, including customs union;
- Environment;
- Veterinary services and administrative capacity building related to food safety;
- Agricultural administration and control, including IACS;
- Nuclear safety;
- general public administration reform and horizontal technical assistance (TAIEX/Statistics).

However, other actions may need to be foreseen at a later stage, in particular to take into account the results of the negotiations.

Third, as to decommissioning of the nuclear power plants of Ignalina in Lithuania and Bohunice V1 in Slovakia, the results of the negotiations foresee the need to create a specific decommissioning facility in order to finance Community support for such activities at least up to the year 2006. The Commission has proposed, in its Communication of 30 January 2002 to commit annually an amount of € 70 million on a yearly basis from 2004 to 2006 for the decommissioning of Ignalina. Furthermore, the Commission indicated that funds that would have otherwise been allocated under the PHARE programme would need to be committed from heading 3 of the budget after enlargement. The estimated figures will be revised as appropriate on the basis of the spending profile for the decommissioning activities of the Bohunice and Ignalina decommissioning funds.

Since the financing of these activities constitutes a continuation of activities financed under the PHARE programme, the Commission considers that annual budgetary decisions on the allocation of Community support to decommissioning efforts should be taken, as in the past, in consultation with the PHARE management committee. This approach would also allow the necessary time to prepare the necessary legal basis to provide Community support to decommissioning activities for Ignalina envisaged for the next financial perspective. The Commission proposes that this commitment should be laid down in a Protocol annexed to the Act concerning the conditions of accession.

Fourth, a number of declarations, protocols and additional elements will need to be included in the Treaty.

For example, with regard to nuclear safety, the commitments by Lithuania and Slovakia to the early closure of the Ignalina and Bohunice V1 nuclear power plants will need to be included in the Act concerning the conditions of accession.

Fifth, a legal base for the facility for the northern part of Cyprus in order to back up a political settlement.

### ANNEX 3: HUMAN RIGHTS CONVENTIONS

#### Human Rights Conventions ratified by the Candidate Countries, 15 September 2002

<i>Adherence to following conventions and protocols</i>	<b>BG</b>	<b>CY</b>	<b>CZ</b>	<b>EE</b>	<b>HU</b>	<b>LV</b>	<b>LT</b>	<b>MT</b>	<b>PL</b>	<b>RO</b>	<b>SK</b>	<b>SI</b>	<b>TK</b>
<b>ECHR (European Convention on Human Rights)</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	X	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 7 (ne bis in idem)	X	X	X	X	X	X	X	O	O	X	X	X	O
<b>European Convention for the Prevention of Torture</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>European Social Charter</b>	O	X	X	O	X	X	O	X	X	O	X	O	X
<b>Revised European Social Charter</b>	X	X	O	X	O	O	X	O	O	X	O	X	O
<b>Framework Convention for National Minorities</b>	X	X	X	X	X	O	X	X	X	X	X	X	O
<b>ICCPR (International Covenant on Civil and Political Rights)</b>	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (death penalty)	X	X	O	O	X	O	X	X	O	X	X	X	O
<b>ICESCR (International Covenant on Economic, Social and Cultural rights)</b>	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CAT (Convention against Torture)</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CERD (Convention on the Elimination of All Forms of Racial Discrimination)</b>	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
Optional Protocol to the CEDAW	O	X	X	O	X	O	O	O	O	O	X	O	O
<b>CRC (Convention on the Rights of the Child)</b>	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

**O** = Convention **NOT** ratified

BG=Bulgaria; CY=Cyprus; CZ=Czech Republic; EE=Estonia; HU=Hungary; LV=Latvia; LT=Lithuania; MT=Malta;  
PL=Poland; RO=Romania; SK= Slovak Republic; SV=Slovenia; T=Turkey

ANNEX 4: TWINNING PROJECTS

NUMBER OF TWINNING PROJECTS FINANCED UNDER PHARE IN 1998-2002\*

Candidate Country \ Sector	Agriculture (incl. Veterinary and Phytosanitary projects)	Environment	Public Finance (incl. Taxation, Customs, Internal Market, etc.)	Justice and Home Affairs	Social Policy	Regional Development and Preparation for Structural Funds	Others	Total
<i>Bulgaria</i>	13	11	15	17	2	4	2	<b>64</b>
<i>Cyprus</i>	–	–	1	1	–	–	–	<b>2</b>
<i>Czech Rep.</i>	7	10	16	19	15	6	7	<b>80</b>
<i>Estonia</i>	8	4	8	8	7	3	1	<b>39</b>
<i>Hungary</i>	12	11	12	10	8	4	3	<b>60</b>
<i>Latvia</i>	4	3	13	7	2	4	3	<b>36</b>
<i>Lithuania</i>	7	2	12	12	6	3	8	<b>50</b>
<i>Malta</i>	4	1	1	1	1	1	1	<b>10</b>
<i>Poland</i>	27	12	36	16	12	19	12	<b>134</b>
<i>Romania</i>	11	6	26	22	9	15	6	<b>95</b>
<i>Slovak Rep.</i>	9	9	10	17	6	3	7	<b>61</b>

<b>Slovenia</b>	9	1	11	8	3	5	3	<b>40</b>
<b>Turkey</b>	2	1	1	6	–	–	3	<b>13</b>
<b>Total</b>	<b>113</b>	<b>71</b>	<b>162</b>	<b>144</b>	<b>71</b>	<b>67</b>	<b>56</b>	<b>684</b>

\*) The number of projects for 2002 is still subject to changes

**NUMBER OF TWINNING PROJECTS 1998-2002\* IN WHICH MEMBER STATES  
ARE INVOLVED AS LEADERS OR PARTNERS**

<b>Country</b>	<b>A</b>	<b>B</b>	<b>D</b>	<b>DK</b>	<b>E</b>	<b>FIN</b>	<b>F</b>	<b>EL</b>	<b>IRL</b>	<b>I</b>	<b>NL</b>	<b>P</b>	<b>S</b>	<b>UK</b>	<b>Total</b>
<b>BG</b>	7	–	21	2	6	–	10	6	2	1	4	–	4	9	<b>72</b>
<b>CY</b>	–	–	–	1	1	–	–	1	–	–	–	–	–	–	<b>3</b>
<b>CZ</b>	5	–	23	4	7	2	15	1	3	4	12	1	3	22	<b>102</b>
<b>EE</b>	–	–	11	–	–	11	4	1	4	1	4	–	8	3	<b>47</b>
<b>HU</b>	11	1	17	5	10	5	14	2	1	4	5	–	7	11	<b>93</b>
<b>LV</b>	–	1	7	2	2	5	3	1	–	–	1	–	7	4	<b>33</b>
<b>LT</b>	–	1	12	9	4	8	6	–	–	3	1	–	14	6	<b>64</b>
<b>MT</b>	–	–	–	–	2	–	–	–	1	1	–	–	–	3	<b>7</b>
<b>PL</b>	4	–	33	11	16	5	37	1	3	8	15	1	9	24	<b>167</b>
<b>RO</b>	2	1	15	3	11	–	23	6	–	11	9	–	4	11	<b>96</b>
<b>SK</b>	12	–	18	1	8	2	12	6	2	5	7	–	6	8	<b>87</b>
<b>SI</b>	11	–	13	–	8	–	5	1	2	2	4	–	5	4	<b>55</b>
<b>TR*</b>	–	–	–	–	–	–	–	–	–	–	–	–	–	–	<b>–</b>
<b>Total</b>	<b>52</b>	<b>4</b>	<b>170</b>	<b>38</b>	<b>75</b>	<b>38</b>	<b>129</b>	<b>26</b>	<b>18</b>	<b>40</b>	<b>62</b>	<b>2</b>	<b>67</b>	<b>105</b>	<b>826 **</b>

\*) Selection of Twinning partners for 2002 is not yet finalised.

\*\*) This total does not correspond to the total number of projects, some projects involve more than one Member State

## ANNEX 5: PEER REVIEWS

### Peer reviews: Number of Expert mobilisations per Member State

<b>Member State</b>	<b>Total number of expert mobilisations</b>
<b>Austria</b>	71
<b>Belgium</b>	33
<b>Denmark</b>	41
<b>Finland</b>	61
<b>France</b>	57
<b>Germany</b>	78
<b>Greece</b>	19
<b>Ireland</b>	27
<b>Italy</b>	47
<b>Luxembourg</b>	10
<b>Netherlands</b>	61
<b>Portugal</b>	49
<b>Spain</b>	35
<b>Sweden</b>	74
<b>United Kingdom</b>	137
<b>Total</b>	<b>800</b>

**Peer reviews carried out by the TAIEX office, DG Enlargement**

<b>Candidate country</b>	<b>Chapter 1<sup>9</sup> Free Movement of Goods</b>	<b>Chapter 2<sup>10</sup> Freedom of movement of Persons</b>	<b>Chapter 3<sup>11</sup> Freedom to provide services</b>	<b>Chapter 7<sup>12</sup> Agriculture</b>	<b>Chapter 13<sup>13</sup> Social Policy</b>	<b>Chapter 19<sup>14</sup> Telecommunications and information technologies</b>	<b>Chapter 22<sup>15</sup> Environment</b>	<b>Chapter 23<sup>16</sup> Consumers and Health Protection</b>	<b>Chapter 24<sup>17</sup> Co-operation in the field of Justice and Home Affairs</b>	<b>Total</b>
<b>Bulgaria</b>		6		1	1			1		<b>9</b>
<b>Cyprus</b>	2	6	1	5	1		1	1	1	<b>18</b>
<b>Czech Rep.</b>	2	6	2	6	1	1	1	1	1	<b>21</b>
<b>Estonia</b>	2	6	1	5	1	1	1	1	1	<b>19</b>
<b>Hungary</b>	2	6	2	7	1	1	1	1	1	<b>22</b>
<b>Latvia</b>	2	6	1	5	1		1	1		<b>17</b>
<b>Lithuania</b>	2	6	1	5	1		1	1		<b>17</b>
<b>Malta</b>	2	6	1	3	1		1	1	1	<b>16</b>
<b>Poland</b>	2	6	2	5	1		1	1		<b>187</b>
<b>Romania</b>		6		2	1			1		<b>10</b>

<sup>9</sup> Rapid Alert System for Food and Feed, Novel Foods/GMOs

<sup>10</sup> Mutual recognition of professional qualifications in the medical sector: Doctors, Dentists, Pharmacists, Veterinarians, Nurses, Midwives

<sup>11</sup> Financial Services, Data Protection (not all topics in all countries)

<sup>12</sup> Bovine database, Fruits and Vegetables, IACS, Milk Quotas, Veterinary BIPs, Veterinary Establishments, Wine (not all topics in all countries)

<sup>13</sup> Communicable Diseases

<sup>14</sup> Postal Services

<sup>15</sup> Environment including topics such as: Air, Chemicals, Dangerous substances to water, Drinking water, EIA, GMO's, IPPC, Nature Protection, Nitrates, SEVESO, Waste

<sup>16</sup> General Product Safety

<sup>17</sup> Justice and Home affairs including topics such as: Implementation of the Schengen Action Plan/External Borders, Judiciary, Asylum, Drugs, Visa Policy, Money laundering, Fight against economic and financial crime, Fraud and corruption, Police co-operation

<b>Slovak Rep.</b>	2	6	1	7	1	1	1	1		<b>20</b>
<b>Slovenia</b>	2	6	1	5	1		1	1	1	<b>18</b>
<b>Total</b>	<b>20</b>	<b>72</b>	<b>13</b>	<b>56</b>	<b>12</b>	<b>4</b>	<b>10</b>	<b>12</b>	<b>6</b>	<b>205</b>

**Peer reviews carried out by other services of the Commission and other institutions**

<b>Candidate country</b>	<b>Chapter 4<sup>18</sup> Free movement of capital</b>	<b>Chapter 14<sup>19</sup> Energy</b>	<b>Chapter 25<sup>20</sup> Customs Union</b>	<b>Chapter 28<sup>21</sup> Financial Control</b>	<b>Total</b>
<b>Bulgaria</b>	1	1		1	<b>3</b>
<b>Cyprus</b>	1	1	1		<b>3</b>
<b>Czech Rep.</b>	1	1	1		<b>3</b>
<b>Estonia</b>	1	1	1		<b>3</b>
<b>Hungary</b>	1	1	1		<b>3</b>
<b>Latvia</b>	1	1	1		<b>3</b>
<b>Lithuania</b>	1	1	1	1	<b>4</b>
<b>Malta</b>	1	1			<b>2</b>
<b>Poland</b>	1	1	1	1	<b>4</b>
<b>Romania</b>	1	1			<b>2</b>
<b>Slovak Rep.</b>	1	1	1		<b>3</b>
<b>Slovenia</b>	1	1	1		<b>3</b>
<b>Total</b>	<b>12</b>	<b>12</b>	<b>9</b>	<b>3</b>	<b>36</b>

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<sup>18</sup> Peer reviews carried out by the Central European Bank

<sup>19</sup> Peer review in the field of Nuclear Safety carried out under the auspices of the EU Council Working Group on Atomic Questions

<sup>20</sup> Peer review in the field of customs financed through the Customs 2002 programme

<sup>21</sup> Peer review in the field of Public International Financial Control carried out by SIGMA

**ANNEX 6: STATE OF PLAY OF NEGOTIATIONS**

N°	CHAPTER	CY	CZECH	EST	HUN	POL	SLO	BUL	LAT	LIT	MAL	ROM	SLK
1	Free movement of goods											0	
2	Free movement of persons											0	
3	Free movement of services											~	
4	Free movement of capital											0	
6	Competition		0		0	0		0			0	0	0
7	Agriculture	0	0	0	0	0	0	0	0	0	0	~	0
8	Fisheries												
9	Transport		0					0				0	
10	Taxation										0	0	
11	EMU												
12	Statistics												
13	Social policy and employment												
14	Energy							0				0	
15	Industry												
16	Small and medium-sized enterprises												
17	Science and research												
18	Education and training												
19	Telecommunication											0	
20	Culture and audiovisual policy											0	
21	Regional policy							0				0	
22	Environment							0				0	
23	Consumers and health protection												
24	Justice and home affairs							0				0	
25	Customs union										0	0	

26	External relations												
27	Common foreign and security policy												
28	Financial control											0	
29	Financial and budgetary provisions	0	0	0	0	0	0	0	0	0	0	~	0
30	Institutions		0		0				0		~		
31	Other	~	~	~	~	~	~	~	~	~	~	~	~
<b>Chapters opened (1)</b>		<b>30</b>	<b>27</b>	<b>30</b>									
<b>Chapters closed (2)</b>		<b>28</b>	<b>25</b>	<b>28</b>	<b>26</b>	<b>27</b>	<b>28</b>	<b>22</b>	<b>27</b>	<b>28</b>	<b>25</b>	<b>13</b>	<b>27</b>
<b>Chapters remaining open (3)+</b>		<b>3</b>	<b>6</b>	<b>3</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>9</b>	<b>4</b>	<b>3</b>	<b>7</b>	<b>18</b>	<b>4</b>

0 : Chapter open, under negotiation; blank: Chapter provisionally closed; ~ : Chapter not yet opened to negotiations

## ANNEX 7: MAIN STATISTICAL INDICATORS

### CANDIDATE COUNTRIES

#### MAIN STATISTICAL INDICATORS (2001)

	Area	Population	Density	GDP in PPS (Purchasing Power Standards)(1)(2)			GDP % Change	Agriculture	
	1000 km <sup>2</sup>	Million inhabitants	Inhabitants / km <sup>2</sup>	Billion €	GDP per capita €	GDP per capita % of EU average	%	% gross added value	% employment
<b>Bulgaria</b>	111	7.9	71	51.5	6,500	28	4.0	13.8	26.7
<b>Cyprus</b>	9	0.8	82	14.1	18,500	80	4.0	3.9	4.9
<b>Czech Rep.</b>	79	10.2	130	136.0	13,300	57	3.3	4.2	4.6
<b>Estonia</b>	45	1.4	30	13.4	9,800	42	5.0	5.8	7.1

<b>Hungary</b>	93	10.2	110	121.3	11,900	51	3.8	4.3(4)	6.1
<b>Latvia</b>	65	2.4	36	18.1	7,700	33	7.7	4.7	15.1
<b>Lithuania</b>	65	3.5	53	30.3	8,700	38	5.9	7.0	16.5
<b>Malta</b>	0.3	0.4	1,250	4.6 (3)	11,700 (3)	55(3)	-0.8	2.4	2.2
<b>Poland</b>	313	38.6	124	355.5	9,200	40	1.1	3.4	19.2
<b>Romania</b>	238	22.4	94	132.2	5,900	25	5.3	14.6	44.4
<b>Slovakia</b>	49	5.4	110	59.7	11,100	48	3.3	4.6	6.3
<b>Slovenia</b>	20	2.0	98	31.9	16,000	69	3.0	3.1	9.9
<b>Turkey</b>	775	68.6	89	356.8	5,200	22	-7.4	12.1	35.4

Sources : Eurostat from national sources.

- (1) The method for calculating GDP in P.P.S. has been adjusted since last year's reports.  
Data are therefore not comparable.
- (2) For the elaboration of GDP per capita, data related to global population are coming from national accounts, they may differ from demographic statistics.
- (3) 1999
- (4) 2000

**CANDIDATE COUNTRIES**  
**MAIN STATISTICAL INDICATORS (2001)**

	Inflation rate	Unemployment rate	General Government Budget	External Trade				Current Account	Foreign Direct Investment	
	Annual Average	% labour force (5)	Balance in % of GDP	Trade balance exports/imports in %	Exports to EU in % of total exports	Imports from EU in % total imports	Balance of EU with the countries (Mio €)	Balance in % of GDP	Stock in € per capita (1) (2)	Net inflow in % of GDP (2)
<b>Bulgaria</b>	7.4	19.9	1.7	76.3	54.8	49.4	380	-6.0	272	5.1
<b>Cyprus</b>	2.0	4.0	-3.0(4)	13.0	49.0	55.5	1,670	-4.5	/	1.8
<b>Czech Rep.</b>	4.5	8.0	-5.5	91.6	68.9	61.8	2,376	-4.7	2,284	8.7
<b>Estonia</b>	5.6	12.4	-0.4	77.0	69.4	56.5	19	-6.1	2,084	9.7
<b>Hungary</b>	9.1	5.7	-4.1	90.5	74.3	57.8	-481	-2.2	1,790(3)	4.7
<b>Latvia</b>	2.5	13.1	-1.6	57.1	61.2	52.6	466	-9.7	970	2.3
<b>Lithuania</b>	1.3	16.5	-1.9	72.1	47.8	44.0	773	-4.8	720	3.7
<b>Malta</b>	2.5	6.5	-7.0	71.8	41.3	63.6	1,304	-4.8	/	8.8
<b>Poland</b>	5.3	18.4	-3.9	71.8	69.2	61.4	8,976	-4.1	952	3.2
<b>Romania</b>	34.5	6.6	-3.4	73.0	67.8	57.3	967	-5.9	245	2.8(3)
<b>Slovakia</b>	10.8(3)	19.4	-5.6	85.5	59.9	49.8	-264	-8.8	521	6.3
<b>Slovenia</b>	8.6	5.7	-2.5	91.2	62.2	67.7	1,819	-0.4	1,527	1.9
<b>Turkey</b>	57.6	8.5	-28.7	75.8	51.6	44.6	-67	2.3	/	2.2

**Sources** : Eurostat from national sources.

(1) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

(2) Balance of payments data.

(3) 2000

(4) Estimate

(5) Labour Force Survey Definition

**CANDIDATE COUNTRIES**  
**MAIN STATISTICAL INDICATORS (Average 1997/2001)**

	<b>G.D.P. growth</b>	<b>Inflation rate</b>	<b>Unemployment rate</b>	<b>General Government Budget</b>	<b>External Trade</b>	<b>Current Account</b>	<b>Foreign Direct Investment</b>
	<b>Change in %</b>	<b>Annual Average</b>	<b>% active population (4)</b>	<b>Balance in % of GDP</b>	<b>Balance of EU with the country (Mio €)</b>	<b>Balance in % of GDP</b>	<b>Net inflow in % of GDP (1)</b>
<b>Bulgaria</b>	2.0	9.8	15.2	0.5	188	-1.5	5.6
<b>Cyprus</b>	4.2	2.7	4.3	-4.0(3)	1,768	-4.5	1.3
<b>Czech Rep.</b>	1.1	5.6	7.1	-3.8	2,604	-4.3	7.8
<b>Estonia</b>	5.2	6.1	11.5	-0.5	496	-7.8	8.1
<b>Hungary</b>	4.5	12.4	7.4	-5.4	1,090	-3.4	4.3
<b>Latvia</b>	6.1	3.9	14.0	-1.7	318	-8.6	5.7
<b>Lithuania</b>	3.6	3.3	16.5	-2.9	696	-8.9	4.8
<b>Malta</b>	3.4	3.6	6.0	-8.8	1,358	-7.1	11.9
<b>Poland</b>	4.2	9.9	13.6	-2.8	10,750	-5.4	4.2
<b>Romania</b>	-1.0	46.3	6.2	-4.0	1,050	-5.3	3.5(2)
<b>Slovakia</b>	3.3	8.9(2)	15.7	-7.0	48	-7.4	4.4
<b>Slovenia</b>	4.2	8.0	6.8	-2.3	1,704	-1.7	1.4
<b>Turkey</b>	1.2	69.9	7.3	-15.7	7,398	-0.8	0.8

**Sources** : Eurostat and Commission services calculations from national sources.

- (1) Balance of payments data.
- (2) Average 1997/2000
- (3) Estimate average 1997/2000
- (4) Labour Force Survey Definition