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Making a success of enlargement

Strategy Paper

and

**Report of the European Commission
on the progress towards accession
by each of the candidate countries**

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I. The overall context.....	5
1. Introduction	5
2. Public opinion and enlargement	8
3. The enlargement process and neighbouring countries.....	8
a) The Western Balkans.....	9
b) The EFTA countries	9
c) The Newly Independent States.....	9
d) The Mediterranean	10
II. Progress by the candidate countries in meeting the membership criteria	11
1. Political criteria	11
a) Overall development.....	11
b) Conclusions.....	14
2. Economic criteria.....	14
a) Overall Developments	14
b) Conclusions.....	18
3. Other obligations of membership	19
a) Adoption, implementation and enforcement of the acquis	19
b) Sector overview and conclusions	19
c) EMU and the EURO	21
III. Making a success of enlargement.....	21
1. Following the road map - the remaining chapters	22
a) The financial framework and related chapters	23
b) Other chapters	24
2. Action plan for administrative and judicial capacity.....	25
a) Reinforcing Institution Building Actions	26
b) Enhanced Monitoring	27
c) Administrative capacity beyond accession	28
3. Turkey's pre-accession strategy – towards a new phase	29

4. The next steps.....	30
a) Meeting the accession criteria.....	30
b) The first accessions	30
c) Other negotiating candidate countries - towards an updated road map.....	31
IV. Conclusions.....	32
Annexes	34
Annex 1: Conclusions of the Regular Reports.....	34
Bulgaria	34
Cyprus	37
Czech Republic	39
Estonia	43
Hungary	46
Latvia	49
Lithuania	53
Malta	56
Poland	58
Romania	61
Slovakia	65
Slovenia	68
Turkey	71
Annex 2: Candidate countries: main statistical indicators (2000)	76
Annex 3: The pre-accession strategy.....	78
Annex 4: Human Rights Conventions ratified by the Candidate Countries, 30 September 2001	83

Annex 5: Twinning projects in 1998-200184

Annex 6: State of Play of the Negotiations on 26 October 2001**Error! Bookmark not defined.**

I. The overall context

1. Introduction

Over almost half a century, the European Union has helped put an end to the conflicts of the past and to strengthening peace, security, justice and well being throughout Europe. Since the invitation to the candidate countries to become part of the European Union, the enlargement process has contributed decisively to achieving political stability, economic progress and social justice. Stable institutions, changes of government on the basis of free and democratic elections, reinforced protection of human rights, including rights of minorities, and market economy principles are now common features. The enlargement process makes Europe a safer place for its citizens and contributes to conflict prevention and control in the wider world.

Enlargement will benefit not only existing and new Member States but also neighbouring countries, with which the European Union has close ties. No new dividing lines will be drawn across our continent. Each new Member State will bring to the EU its own political, economic, cultural, historical and geographical heritage, thus enriching Europe as a whole.

A strong and united Europe is more important than ever before, against the background of the terrorist attacks of 11 September and subsequent developments. The candidates for European Union membership have aligned themselves with the EU's condemnation of terrorism and associated themselves immediately and fully with the Conclusions and Plan of Action of the extraordinary European Council on 21 September 2001.

The Commission renews its commitment to making a success of enlargement. This will enhance security and stability not only in Europe but also in neighbouring regions and further afield. The next year will be crucial for the successful completion of the ongoing accession negotiations and for the candidates' preparations for membership.

This year's progress reports and proposals for revised Accession Partnerships identify the areas where further efforts are most needed. Together with the road map, set out by the Commission last November and endorsed by successive European Councils, these provide a guide to the successful completion of the accession process with the countries concerned. The Commission will give its evaluation of the readiness of each candidate to assume the rights and obligations of membership in next year's progress reports. Provided their efforts are sustained, it should be possible to conclude the accession negotiations by the end of 2002 with those countries which fulfil the accession criteria. On this basis these countries would be ready to become members of the EU in 2004, in accordance with the objective set out by the European Parliament and by the European Council.

The principles for this process remain unchanged. The Berlin European Council has set out a clear framework for the financial aspects of enlargement. This framework provides a sufficient basis for the accession of up to ten new Member States in 2004. The European Council of Nice has defined the framework for the institutional reform necessary for enlargement. Negotiations are conducted on the basis of the existing *acquis*, applying the principles of own merits and catching-up, and will be concluded with those candidates that fulfil the criteria for membership. These are the necessary and

sufficient conditions defined at the outset for accomplishing the first accessions. Any discussions within the European Union on the reform of policies or institutions should be clearly separated and not hinder or slow down the accession negotiations.

The pace of the negotiations with each candidate reflects, above all, the pace of its own preparations for membership. The application of the principle of differentiation based on each candidate country's own merit, together with the vigorous pursuit of preparations for membership backed up by the EU's pre-accession instruments, is also enabling candidates which began negotiations at a later stage to catch up. The enlargement strategy now in place provides a sound basis for completing the negotiations, on schedule, with the candidates that are sufficiently prepared.

The conditions for membership, set out by the Copenhagen European Council in 1993 and further detailed by subsequent European Councils, provide the benchmarks for assessing each candidate's progress. These conditions remain valid today and there is no question of modifying them. In the present phase of the accession process, however, it is necessary to focus as much on the candidates' capacity to implement and enforce the *acquis* as on its transposition into law. For this reason, particular attention is now being given to the candidates' administrative and judicial capacity. By means of an action plan, the Commission will increase support for institution building and monitor closely the fulfilment of undertakings made in the negotiations and the achievement of priorities set out in the Accession Partnerships.

The European Union will continue to lend its full support to the preparations for membership by candidates that are not in a position to complete negotiations within the timetable indicated above. Negotiations will be pursued with them, on the basis of the principles that have guided the accession process from the beginning. In its 2002 Enlargement Strategy Paper, the Commission will set out an updated road map, and, if necessary, a revised pre-accession strategy, for such candidates, taking into account the progress made in the next year and the conclusions of the Göteborg European Council.

To intensify preparations for enlargement, candidate countries are being increasingly associated with EU programmes and activities. Pre-accession economic programmes have been designed bearing in mind the requirements for economic and monetary union and national employment strategies are being developed. The Göteborg European Council conclusions invited the candidate countries to translate the Union's economic, social and environmental objectives into their national policies. The candidate countries should be associated as far as possible to the Lisbon process, which focuses on the strategic goal for the Union to develop a sustainable, highly competitive, knowledge-based economy.

Co-operation in justice and home affairs will become increasingly important, both in view of the fight against terrorism and organised crime and the longer-term discussions on the possible creation of common border control arrangements. The Schengen system will apply to all new Member States. Full participation in it will be based on a two-step process. The new Member States will first need to achieve a high level of external border control upon accession whereas the lifting of internal border controls with current Member States will take place only at a later stage, subject to a separate decision by the Council.

Joining the European Union is not identical with joining the euro. Whereas participation in the single currency is part of the *acquis*, candidate countries will have to conform to the convergence criteria for participation in the euro. This will be decided at a later stage, after accession, following assessment of the achievement of a high degree of sustainable convergence, as was the case for the initial participants in the euro zone. The first priority for each candidate must, however, now be to comply with the Copenhagen economic criteria.

Candidate countries will be increasingly involved in the discussion of the future of Europe including the Convention, which will prepare the way for the next Intergovernmental Conference. The work of the Convention and the IGC is capital for the future of Europe; it does not, however, constitute a new condition for enlargement.

As the debate on Europe's future advances and the date for enlargement nears, citizens in existing and future Member States will increasingly wish to understand the likely effects of enlargement. The Commission, working closely with the European Parliament, is ready to respond to this demand and to back up the efforts of political leaders in the countries concerned to explain to the public the issues involved.

It would be an inspiration for Europe as a whole, and for the world at large, if the whole of Cyprus was able to enter the European Union together on the basis of a settlement taking into account the interests and concerns of the respective parties. It is disappointing that the Turkish Cypriot leadership is not presently engaged in the process conducted under the auspices of the United Nations. All parties concerned should take full advantage of the window of opportunity before the completion of the accession negotiations to achieve a settlement. If, however, a settlement has not been reached by the completion of the accession negotiations, the Council will take its decision on accession, without this being a pre-condition, in accordance with the Helsinki European Council conclusions.

The Helsinki European Council concluded that Turkey is a candidate whose application will be judged on the basis of the same criteria as applied to other candidate countries. The pre-accession strategy, called for in those conclusions, is now well underway. The Commission welcomes the political and economic reforms which have been initiated. Turkey needs to ensure that these reforms are effective, especially with respect to the protection of human rights, and to contribute actively to efforts to resolve the Cyprus problem and the differences that have arisen over the European Security and Defence Policy.

The forthcoming enlargement of the European Union is being thoroughly prepared by means of the strategy set out in this document. It is founded on clear principles, which have been enunciated by successive European Councils, and on a transparent and objective method set out by the Commission in Agenda 2000 and applied each year in its Progress Reports. The present document, and the accompanying Reports, provide an analysis of the stage reached in the enlargement process in Autumn 2001 and point the way to ensuring that the next and decisive phase of the process is successful.

2. Public opinion and enlargement

In preparing the present round of enlargement, political and economic leaders in the European Union need to engage in a dialogue with the public about enlargement, and to contribute to the discussion of the Union in the candidate countries.

Opinion polls, and Eurobarometer, show that in the existing Union information and understanding about the implications of enlargement need to be improved. In the candidate countries, public support for accession is generally high, but can vary as a result of different factors, including developments in the accession negotiations.

In May 2000 the Commission launched a communication strategy to make available information about the enlargement process. To succeed, it requires that the European institutions, but also elected representatives, political leaders, governments, economic and social partners and civil society in general participate in the dialogue.

The Commission is developing its communication strategy on a decentralised basis, taking account of the particular needs and conditions of the Member States and the candidate countries. The Commission's representations in the 15 Member States, and its delegations in the 13 applicant countries, have the responsibility for drawing up programmes adapted to needs. At the regional level, priority is being given to regions of the existing Union bordering the candidate countries. In developing the strategy the Commission is working closely with the offices of the European Parliament.

The Commission will keep the Council and Parliament informed of the results.

3. The enlargement process and neighbouring countries

When the EU enlarges it will acquire new neighbours and its relations with them will evolve to reflect the new situation. The EU has developed specific policies for each neighbouring region – the Stabilisation and Association process for the Western Balkans, the Barcelona process for the Mediterranean and the Partnership and Co-operation framework for Russia, Ukraine and other Newly Independent States (NIS). These complement the close and integrated relationship developed with the countries of European Free Trade Agreement and the European Economic Area.

These policies foresee the creation of a free trade area encompassing the EU and its neighbours in which democracy and respect for human rights and the rule of law prevail.

As the EU enlarges, the range of common interests of the EU and its new neighbours will expand. This will create new opportunities, acting as a stimulus for growth and investment. Enlargement will eventually create an internal market of over 500 million consumers. It will be in the mutual interest of the EU and its new neighbours to continue to work together to consolidate economic reform and strengthen business by creating a transparent regulatory environment. Progressive alignment with the rules of the EU's internal market and regulatory framework will facilitate trade and attract investment in the neighbouring regions. This will bring benefits to business in all the countries concerned.

Enlargement will also bring new challenges. It will heighten the need for the EU and its neighbours to work closely on issues such as justice and home affairs. The EU is

likely to attract migrants from its neighbours and will want to develop with them ways of planning for legal migration while combating illegal migration and trafficking in human beings. Border management will take on increased importance with close co-operation in areas ranging from customs and veterinary/phyto-sanitary controls to combating organised crime and drugs trafficking.

The enlarged Union will need to deepen its relationships with its immediate neighbours and to develop further a common approach. The enlarged EU is likely to see an interest in linking together common elements of the three geographic policies currently in place. The future borders of the Union must not become a new dividing line. A well-designed proximity policy, building on the present policy framework, will ensure that the enlarged EU and its neighbours deepen their common interests and activities.

a) The Western Balkans

2001 has witnessed the consolidation of democracy in the Western Balkans region. Following the election of a new democratic leadership in the Federal Republic of Yugoslavia (FRY), the countries of the region have pushed ahead with political, economic and administrative reforms. Progress has not been even however and a resurgence of violence in the southern regions of the FRY and in the former Yugoslav Republic of Macedonia represents a set-back in the pursuit of peace and stability in the region. The challenge for the EU is to respond effectively to volatility in the region while progressing towards the goal of integration of the countries of the region into the EU, in line with the Feira European Council conclusions.

The Stabilisation and Association Process (SAP) provides a framework within which new contractual relationships and an assistance programme (CARDS) help each country to progress, at its own pace as potential candidates for EU membership. Regional co-operation is critical for the consolidation of stability and a vital component of the EU's commitment in Southeastern Europe. This will require additional efforts. All the countries in the region need to be assisted in their attempts to synchronise regional co-operation efforts with the requirements of EU integration. The Stabilisation and Association process, Stability Pact and financial assistance each play a complementary role in this respect.

b) The EFTA countries

The new Member States will accede to the Union's agreements with the members of the European Free Trade area (EFTA). The acceding countries will need to apply to join the European Economic Area (EEA), in accordance with Article 128 of the EEA Agreement. With this in view, the Commission keeps the EFTA partners informed of the progress of the accession negotiations.

c) The Newly Independent States

The EU is building a stronger partnership with *Russia* to take mutual advantage of the benefits of enhanced co-operation in areas such as energy, foreign policy, justice and home affairs and environment. The Partnership and Co-operation Agreement (PCA) with Russia provides a basis for political dialogue and wide-ranging co-operation including work related to Russia's application for WTO membership. The

development of EU-Russia relations within the PCA framework was given new momentum at the EU-Russia Summit in October 2001 when agreement was reached on a High Level Group to develop a concept for a Common European Economic Space.

Russia welcomes EU enlargement and expects the EU to consider carefully its impact on Russia. Such issues are discussed in the Partnership and Co-operation Agreement institutions with a view to resolving any problems that might arise before enlargement. The case of *Kaliningrad* has been raised in this context. The Commission tabled a discussion paper in 2001 which examines the impact of enlargement on Kaliningrad and which also looks at other issues of mutual interest such as protection of the environment in the Baltic Sea region. It is in the EU's and Russia's mutual interest to ensure that Kaliningrad can gain from the beneficial economic consequences of enlargement. Practical issues like visas and border formalities for travel between Kaliningrad and the rest of Russia need to be discussed with a view to finding constructive solutions within the *acquis*.

The EU also has Partnership and Co-operation Agreements with *Ukraine* and *Moldova* and is committed to helping these two countries in their process of political and economic transition and progressive alignment with European laws and practice. They have both been invited to participate in the European Conference and are active in regional and sub-regional groups involving EU Member States, candidate countries and the countries participating in the Stabilisation and Association process. *Belarus* also borders on the future EU but relations are limited on account of the country's poor record on democracy, human rights and the rule of law.

d) The Mediterranean

EU relations with the countries of the Mediterranean take place within the Barcelona process which brings together the EU 15 with 12 countries of the Mediterranean littoral for co-operation on political and security matters, economic co-operation leading to free trade, and social and cultural co-operation. A series of regional co-operation initiatives and a network of bilateral relationships underpin this framework. Although the process is affected by the lack of a lasting peace in the Middle East, it has been effective in maintaining dialogue since it was established in 1995 and provides a forum where Israel and the Arab states continue to meet.

Association agreements have entered into force between the EU and Morocco, Tunisia, Israel and the Palestinian Authority. Such Agreements have also been signed with Jordan and with Egypt, with the first, at least, due to enter into force very soon. Negotiations are proceeding with Algeria, Lebanon and Syria with a good prospect of concluding the first two before the end of 2001. The remaining three partners (Cyprus, Malta and Turkey) are covered by pre-existing agreements and are themselves on the accession path. In addition, the Barcelona process provides for the conclusion of free trade agreements between the partners ("South-South-Agreements"); the EU has therefore strongly welcomed, and offered its support to, the Agadir process launched on 8 Mai 2001 in which Morocco, Tunisia, Egypt and Jordan have agreed to establish free trade with each other.

In November 2000, the 27 foreign ministers agreed to re-invigorate Euro-Mediterranean co-operation and set ambitious new targets to carry forward the

Barcelona process. Work has since been stepped up. The tragic events of 11 September 2001, however, have shown that there is a need for still closer co-operation, not least in social, cultural and educational areas. The Barcelona process provides an excellent framework for this purpose.

II. Progress by the candidate countries in meeting the membership criteria

As in previous years, this year's Regular Reports highlight legal measures actually adopted rather than those under preparation. The Commission has examined whether, since October 2000, announced reforms have in fact been carried out. For each of the 29 chapters of the European Union's *acquis*, the reports analyse the progress made by each candidate in adopting the *acquis* and in ensuring its implementation and enforcement through the necessary administrative structures. Each chapter includes not only an assessment of progress achieved since last year's report, but also an assessment of overall progress.

The assessment is based initially on information provided by the candidate countries themselves. The Commission has also drawn upon information provided in the context of the accession negotiations as well as in meetings held under the Association Agreements. It has compared information from these sources with that contained in the new *National Programmes for the Adoption of the Acquis*, which were transmitted to the Commission in the first part of 2001. The Commission has drawn on the reports of the European Parliament, evaluations from the Member States, the work of international organisations, in particular the Council of Europe and OSCE, and international financial institutions, European business associations as well as non-governmental organisations.

1. Political criteria

The Copenhagen European Council stated that "membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights, and the respect of and protection of minorities." Article 6 of the Treaty of the European Union indicates that "The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law." These principles were emphasised in the Charter of Fundamental rights of the European Union, which was proclaimed at the Nice European Council in December 2000.

a) Overall development

In the 2000 Reports, the Commission concluded that all negotiating countries continued to fulfil the political criteria, and that the overall record in strengthening democratic institutions, in respecting the rule of law and in protecting human rights had improved since the previous year. The Commission drew attention, however, to the need to accelerate the reform or reinforcement of the judiciary, and to tackle the problem of corruption. Furthermore, the Commission called for vigorous measures in fighting the growing problem of trafficking in women and children, and emphasised the need for sustained efforts to improve the situation of the Roma. The Commission urged Turkey to take the necessary decisions to translate its intentions concerning the protection of human rights into concrete measures.

Since the last Regular Reports, the candidate countries have continued to strengthen the functioning of their **democratic systems of government**. National or local elections were held in Bulgaria, Cyprus, the Czech Republic, Estonia, Latvia, Malta, Poland, and Romania. Those elections were free and fair.

Considerable further efforts were made to ensure the independence, transparency, accountability and effectiveness of the **public administration**. In several countries the legal framework for the civil service was reinforced, and training of civil servants and the modernisation of the public administration continued. These efforts need to be sustained.

Further progress was made in reforming and strengthening the **judicial system**, as a vital element in ensuring respect for the rule of law and in the effective enforcement of the *acquis*. Several countries advanced in adopting basic legislation, strengthening human resources and improving working conditions. Efforts in this area need to be further stepped up, with particular attention to ensuring the independence of the judiciary.

Previous reports identified **corruption** as a serious problem “exacerbated by low salaries in the public sector and extensive use of bureaucratic controls in the economy.” This assessment remains largely valid, although several positive developments have taken place. In most countries anti-corruption bodies have been strengthened, and progress has been made in legislation, in such areas as public procurement and public access to information. Encouraging developments in several countries as regards the reform of public administration also contribute to the fight against corruption. Notwithstanding these efforts, corruption, fraud and economic crime remain widespread in many candidate countries, where they contribute to a lack of confidence by the citizens and discredit reforms. Continued, vigorous measures are required to tackle this problem.

In previous years, the Commission had underlined the problem of **childcare institutions** in Romania. The Romanian authorities have taken a number of legislative, administrative and financial measures, supported by PHARE. These efforts must be continued, so as to ensure tangible and long-lasting improvement in the living conditions of the children and families concerned, to prevent abuses and to address the problem of street children.

The alarming trend identified in last year's Reports as regards the **trafficking in women and children** has regrettably been confirmed this year. Several candidate countries remained countries of origin, transit and destination, and there are no signs that the problem is abating. Vigorous measures are required to counter this trend, with due respect for the rights of victims.

Limited improvement can be noted in the problems surrounding **pre-trial detention** in several countries. These are primarily related to the excessive duration of the detention, lack of access to a lawyer and, in some cases, maltreatment. These problems need to be addressed.

Further progress was made in several countries in ensuring **gender equality**, both in terms of legislation and the institutional framework. However, further efforts are needed to promote the economic and social equality of women. The steps taken in a

number of countries to assist victims of violence are welcome developments, which should be accompanied by appropriate preventive measures.

As regards **minorities**, a number of encouraging developments can be noted. Estonia and Latvia further progressed in the integration of non-citizens, and continue to fulfil all OSCE recommendations regarding citizenship and naturalisation. In both countries, due care will need to be taken to ensure that the implementation of existing language legislation takes place in full respect of the principles of proportionality and justified public interest. In several countries, further steps were taken to strengthen the legal and institutional frameworks for the protection of minorities. In Bulgaria, Slovakia and Romania minorities are playing an important role in national political life

In all countries with sizeable **Roma** communities, national action plans are now in place to tackle discrimination, which remains widespread, and improve living conditions that continue to be extremely difficult. In most cases implementation of these action plans is underway and, in some countries, national budgetary resources have been reinforced. PHARE funding continues to be made available to support these actions. Further efforts are required to ensure that the various programmes are implemented in a sustained manner, in close co-operation with Roma representatives, and that appropriate budgetary support is made available in all countries.

In its 2000 Report, the Commission concluded that **Turkey** did not meet the Copenhagen political criteria. Despite a number of positive developments, this assessment still remains valid and further efforts are needed.

Turkey's national programme for the adoption of the *acquis* set the scene for a major constitutional reform package, building on the work of the Parliament's Conciliation Commission. This package was adopted in record time on 3 October 2001 with an overwhelming majority, showing the Parliament's determination to bring Turkey closer to EU standards.

This is a significant step towards strengthening guarantees in the field of human rights and fundamental freedoms and limiting capital punishment. In particular, the amendments have narrowed the grounds for introducing limitations to freedom of expression and communication, freedom of the press and freedom of association. Attention has now turned to the effective implementation of these important changes. Implementing legislation is under preparation.

Despite these changes, restrictions on the exercise of fundamental freedoms remain. The extent to which individuals in Turkey will actually enjoy an improvement in the exercise of fundamental freedoms will depend on the interpretation given to the constitutional amendments, the details of implementing legislation and the practical application of the law by the authorities.

The Commission strongly encourages Turkey to bring about substantial improvements, not only in the constitutional provisions and the laws concerning the protection of human rights, but above all in the human rights situation in practice. This requires reform of many existing structures and practices. The Commission welcomes the fact that the moratorium on the death penalty has continued and that constitutional reform has limited the death penalty but reminds Turkey that capital punishment itself should be abolished to bring Turkey into line with the principles of the European Union. The

Commission urges Turkey to ensure that particular attention is devoted to improving significantly the situation in Southeast Turkey.

b) Conclusions

The Copenhagen political criteria continue to be met by all presently negotiating candidate countries. Turkey still does not meet these criteria.

The requirements set by the Copenhagen political criteria, and the Commission's regular assessment of progress achieved in meeting them, have continued to serve as important incentives for the candidate countries. Since the 1997 Opinions and the subsequent Regular Reports, overall progress in consolidating and deepening democracy and respect for the rule of law, human rights and the rights of minorities has been considerable. Building on this progress, the past year has generally seen further positive developments, and the overall record in strengthening democratic institutions, in respecting the rule of law, and protecting human rights has further improved.

However, while efforts to reform or strengthen the judiciary are slowly starting to bear fruit, these should be further accelerated and reinforced, in particular to ensure effective enforcement of the *acquis*. The fight against corruption should be further stepped up. Tangible results in this domain are needed to respond to public concern and help ensure a transparent business environment.

Continued problems related to pre-trial detention in certain countries should be addressed. The trafficking of women and children from, through or into several candidate countries remains a serious cause of concern, requiring vigorous measures. Further efforts are needed in ensuring gender equality and non-discrimination. It is also very important to sustain efforts to improve the situation of the Roma.

Turkey should take the necessary measures to ensure that the recent important constitutional amendments translate into concrete progress concerning human rights.

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 4**.

2. *Economic criteria*

a) Overall Developments

This year's assessment of progress made by candidate countries in meeting the Copenhagen economic criteria takes place at a time of rapidly deteriorating global economic conditions. However over 2000, and the first half of 2001, growth in the candidate countries was relatively strong.

The year 2000 showed the best growth performance since the introduction of the Regular Reports. Average **real GDP growth** for the candidate countries was around 5%, much above the 1999 outcome of zero growth. The average performance of the 10 CEEC countries was 3.6%, considerably higher than the 2.2% achieved in the previous year. Growth resumed in the Czech Republic, Estonia, Lithuania and Romania, and 8 countries exhibited higher rates of growth. The exceptions were Poland and Slovenia, where growth weakened slightly, although it remained solid at 4% for

Poland and 4.6% for Slovenia. On average, the Mediterranean candidate countries outperformed the transition economies with real GDP growth rates of 5% for Cyprus and Malta, and 7.2% for Turkey. By contrast, average real GDP growth for the EU was 3.3%, indicating that catching up, although small, was higher than in the previous years.

In the first half of 2001, with a deteriorating EU economic performance, there has been, on average, a deceleration of GDP growth in the candidate countries. So far, countries that have been on a higher and more stable average growth path are more affected. Countries just returning to more normal output growth after having been in recessions, such as the Czech Republic and Romania, appear to be holding better. Similarly the Baltic states that went through a cyclical diminution of growth in 2000, seem to be withstanding the current slowdown, partly supported by the external demand pull of higher growth in Russia and the NIS. Poland is going through a stronger slowdown, largely the result of a poorly co-ordinated policy-mix combined with the deteriorating external environment and domestic political uncertainty. Turkey's growth performance has turned sharply negative. Two deep financial crises occurred at the end of 2000 and the beginning of 2001, taking their toll on GDP growth, but at the same time leading the government to take much needed reform and corrective measures.

GDP per capita as a percentage of the EU average, and measured in purchasing power standards (PPS), went up to 39% in 2000, against 38% in 1999 for the CEEC-10. For all thirteen candidate countries it stood unchanged at the previous year's level of 35%. The closing of the existing large income gap is a medium to long-term project that requires relatively higher average rates of growth over time. Comparing the situation in 2000 with that prevailing in 1995, 9 candidate countries have made gains over this period, while 3 (Bulgaria, Czech Republic and Romania) have not and Turkey remains essentially at the same level. Estonia, Latvia, Hungary, Poland and Slovenia have made very good gains. The income distribution has tended to become more unequal, particularly in the CEEC-10. This outcome is to be expected, first because under the old regimes the income distribution was rather egalitarian; secondly, because of uneven growth pushing the demand for certain labour skills in some areas and sectors ahead of others. However the rising level of income should benefit many. Inequality is still lower than in the EU.

Despite the relatively healthy overall growth factors in all candidate countries, except Turkey, many imbalances have widened and macroeconomic conditions across countries remain mixed.

The 2001 Regular Reports present two figures for the government balance. One is based on the most commonly used national concept, and the other is calculated according to the European System of Accounts (ESA 95), which was reported by the candidate countries for the first time this year. On average, the ESA 95 **general government deficit** has deteriorated somewhat from about 3% of GDP to 3.5%. Large one-off increases were recorded in Czech Republic and Slovakia, due mainly to the fiscal cost of cleaning-up a number of banks, which, under ESA 95 rules, has to be taken into account in the general government net balance, the year it is incurred.

A number of countries are experiencing difficulties implementing reforms which are key to medium-term fiscal sustainability. Some non-transparent fiscal practices are

returning in Hungary. Poland's municipal reform has not been accompanied by a realistic plan to pay for the costs of municipal services. In some countries the reform of social security is too timid or still at an early stage, such as the Czech Republic, Slovakia and Slovenia.

Overall, **inflation rates** are on the increase in many candidate countries and the CEEC-10 average, at over 15%, is considerably higher than last year's of around 10%. The main immediate cause of inflation has been the high increases in oil prices. Particularly worrying are cases where the monetary policy framework and the pass-through structural features are largely contributing to inflation inertia. In this sense, there are positive developments in Hungary and Poland, with their new exchange rate and monetary framework while Slovenia is lagging behind. Romania and Turkey have failed, for another year, to bring inflation under control, but have recently adopted stabilisation programmes with the IMF. Slovakia's high inflation is the result of much needed, and delayed, increases in administered prices. Bulgaria's rising inflation, in the context of the currency board arrangement, needs to be closely watched.

Despite the good growth performance, **unemployment** in the CEEC-10, at 12.5%, has continued to increase from just below 11%, pointing to the still negative impact of structural labour shedding reforms and high productivity growth. Exceptions are Hungary and Slovenia, with declining unemployment. Participation rates are generally stable, but remain low in some cases. Labour market rigidities and skill mismatches are putting a lower limit to unemployment even in high growth economies. Cyprus and Malta can be said to be close to full employment levels.

There has been, for the CEEC-10, an improvement of the **current account deficit** from 5.6% of GDP to just about 5%, in spite of a deterioration in the terms of trade. The correction has been substantial in Latvia and Lithuania, whose exposure had been too high. Malta had a marked deterioration of its current account deficit with a large one-off component. The recovery has brought about a deterioration of the external balance in the Czech Republic, which needs to stand ready to take corrective measures. In almost all cases, **foreign direct investment** (FDI) has contributed significantly to finance the external imbalance. The component of FDI, often stemming from privatisation, still seems to dominate total inflows in all candidates. Therefore, the level of external debt remains at past year's levels, except in Turkey. Turkey, due to the sharp depreciation of its currency caused by the financial crisis, is in a more precarious situation as the domestic value of its relatively large external debt has greatly increased. The level of FDI in Turkey remains significantly below its potential.

Candidate counties, with the exception of Cyprus and Malta, are still facing some difficulties in setting-up some elements of **the legal and institutional framework** needed for the functioning of a market economy, including enforcement of judicial decisions. The extent of the difficulties varies from the severe case of Romania and, to a lesser extent, Bulgaria, to countries where there are no significant barriers to market entry and exit and where the degree of legal certainty is high, like Estonia and Hungary. The main problem remaining is the implementation of bankruptcy laws. Progress in this area is crucial before accession.

Privatisation of manufacturing enterprises is almost completed in many CEEC-10, with the exception of Romania, where the privatisation agenda is still large, and to a lesser extent Bulgaria. Poland still needs to devise viable privatisation and

restructuring strategies for some important traditional sectors. Privatisation strategies have moved into sectors such as the utilities, transport and energy and are accompanied by efforts to restructure these sectors. **In the financial sector**, the bank privatisation agenda is completed in a number of candidates such as Estonia, Hungary, Latvia and the Czech Republic. It has advanced in Lithuania, Romania, Poland and Slovakia and is lagging considerably behind in Slovenia. Concerning the state-owned banks not intended for privatisation, it is important that governments do not interfere with their operating practices and credit policies. For other parts of the financial sector, progress in privatisation is hesitant and uneven across candidates. The completion of land reform with the creation of a functioning land market lingers in many CEEC-10. This is hindering the development of land and housing markets and of construction, with unfavourable implications for the labour markets and financial intermediation.

Financial intermediation is still overall at a low level in the CEEC-10 economies. The sector contributes little to the financing of investment in what should be a growing private sector. Intermediation is particularly low and inefficient in Bulgaria, Romania and Lithuania. In general, further progress is needed before accession, as a proper working of the transmission mechanism for monetary policy would require higher levels of more efficient intermediation. The expansion of the financial sector has been accompanied by improved supervision in the banking sector, but supervision of the other parts needs to improve, not only on regulations but also on the administrative capacity and independence of supervisors.

Cumulative progress on **economic integration** of candidate countries in the EU has mainly taken place through the two channels of trade and capital flows, essentially foreign direct investment.

As to **trade integration**, in 2000, candidate countries on the average, sent about 62% of their exports to the EU and 58% of their imports came from the EU. Excluding Turkey, the shares are about 65% for exports and 62% for imports. Each of the CEEC-10 has over the period 1995 to 2000 increased its share of exports to the EU. Also as a group, they have increased their EU market share. Over the past decade, the CEEC-10 region shows the fastest growth in trade with the EU and accounted in 2000 for about 11 percent of total EU trade with third countries up from 6 percent in 1992. In the EU, the effects are greatest in the EU Member States closest to the region. The trade between candidate countries remains comparably low, although it slightly increased for several of the CEEC-10 in 2000 compared to the previous year.

As to **financial integration**, two thirds of net capital flows in the 1990s originated from the EU Member States. Most net capital inflows to the candidates have been FDI flows. Because of privatisation, nearly half of the FDI flows have been directed to non-tradable sectors such as financial institutions (banks) and public utilities (e.g. telecommunications). Greenfield investments are increasing in some countries, and for instance represent over half of FDI in Bulgaria and dominate in Hungary. In the tradable sector, one fifth of total FDI has occurred in relatively labour-intensive industries such as textiles, clothing, electrical machinery and motor vehicles. In the context of transition and real economic convergence, FDI has, and will continue, to contribute to replace the outdated capital stock and to introduce new technology and management skills.

b) 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. These sub-criteria were defined in the Commission Communication on 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 second criterion (*‘capacity to withstand competitive pressure and market forces within the Union’*) depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Taking the two criteria together, it can be said that Cyprus and Malta have confirmed that they 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, Slovakia and Slovenia are functioning market economies. There are substantial economic differences among these countries, but provided they continue with, and in some cases reinforce, a number of differing measures detailed in each Regular Report, they should be able to cope with competitive pressure and market forces within the Union in the near term.

Bulgaria is close to being a functioning market economy. Provided it continues implementing reforms and intensifies the effort to remove persistent difficulties, it should be able to cope with competitive pressure and market forces within the Union in the medium term.

Romania does not yet meet either criterion but has, for the first time, made decisive progress towards this objective.

Turkey has been unable to make further progress towards achieving a functioning market economy, notably given the recent crises. Considerable parts of its economy are, however, already competing in the EU market, under the framework of customs union with the EC.

The detailed conclusions on the fulfilment of each sub criterion in each Regular Report can be found in **Annex 1**; main statistical indicators in **Annex 2**.

3. Other obligations of membership

The Copenhagen European Council indicated that membership requires ‘the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union’.

a) Adoption, implementation and enforcement of the *acquis*

The ability to take on the obligations of membership requires the adoption, implementation and enforcement of the *acquis*. The importance that candidate countries implement and enforce the *acquis* was underlined by the European Council on a number of occasions. In Madrid in 1995, the European Council highlighted the importance of adjusting the candidate countries’ administrative structures in order to create the conditions for their gradual and harmonious integration. In 2000, the Feira European Council recalled that “progress in the negotiations depends on the incorporation by the candidate countries of the *acquis* in their national legislation and especially on their capacity to effectively implement and enforce it”, by strengthening their administrative and judicial structures. In June 2001, the Göteborg European Council stressed again the importance that candidate countries make continued progress in transposing, implementing and enforcing the *acquis*, and that they pay particular attention to putting in place adequate administrative structures and to reforming their judicial systems and their civil service.

Transposing, implementing and applying the *acquis* is not only a matter for government and administration, but also for business, regional and local bodies and professional organisations. The European Parliament, the Economic and Social Committee and the Committee of Regions have called for the closer involvement of civil society in the process. The candidate countries’ national authorities need to enhance dialogue with representative institutions to explain the *acquis* and to facilitate its countrywide implementation.

b) Sector overview and conclusions

Overall this year’s Regular Reports again note significant progress in the adoption of legislation for alignment with the *acquis* in most candidate countries and for most areas. In a number of areas such as transport¹, telecommunications, energy and justice and home affairs, however, important elements of new Community legislation have been or will be adopted shortly, in most cases building on previous Community law.

Some countries still have difficulties in transposing parts of the *acquis*. Nevertheless, despite the progress made over the past year, the major need now consists of building up adequate administrative structures and strengthening of administrative capacity to implement the *acquis*.

For most or all of the candidate countries, the Regular Reports and the proposed revised Accession Partnerships identify:

¹ The White Paper on European Transport Policy for 2010: Time to decide (COM (2001) 370 fin) advocates moreover a better regulation of competition between the modes of transport by giving rail and other environmentally friendly modes of transport the means to become competitive alternatives to road transport.

- in the field of the *internal market*, the need to establish or reinforce horizontal administrative infrastructures related to standardisation, accreditation, certification, conformity assessment, market surveillance, mutual recognition of qualifications, the supervision of financial services and to strengthen the enforcement of industrial and intellectual property rights;
- in the field of *competition*, the need to develop or strengthen enforcement capacity for state aid rules and anti-trust provisions;
- in the field of *transport and energy*, the need to strengthen or set up appropriate regulatory structures (also in view of forthcoming new *acquis*) and inspection arrangements, in particular to ensure road and maritime safety;
- in the field of *telecommunications* and *culture and audio-visual policy* the need to set-up or strengthen independent regulatory structures, for telecommunications especially also in view of the forthcoming new *acquis*;
- in the field of *environment*, the need to further strengthen administrative, monitoring and enforcement capacity, in particular in the field of waste, water and chemicals;
- in the field of *social policy and employment*, the need, in particular, to ensure the enforcement of occupational health and safety rules and to strengthen labour inspectorates;
- in the field of *justice and home affairs*, the overall need to strengthen the judicial system, the need to strengthen border management, most urgently at future EU external borders, and to prepare for the participation in the Schengen information system, as well as the need to ensure better co-operation of all actors to fight organised crime;
- in the field of *customs* and *taxation*, the need to develop IT-systems to allow for the exchange of electronic data with the Community and its Member States and the capacity of the tax and customs administration to enforce and control Community legislation, including external border controls;
- in the field of *agriculture*, the need to upgrade inspection arrangements according to veterinary and phyto-sanitary legislation, in particular to ensure food safety, and the capacity to implement and enforce the management mechanisms of the Common Agricultural Policy, in particular the Integrated Administration and Control System and the Paying Agency (for which, in the field of rural development, the respective SAPARD agency may be a precursor);
- in the field of *structural policy*, the need to strengthen administrative capacity in key ministries and to build up the appropriate administrative structures for programming, managing and controlling structural funds;
- in the field of *financial control*, the need to strengthen administrative capacity for public internal financial control and for the fight against fraud.

In a number of other areas, individual candidate countries equally need to improve administrative capacity. This can be the case in the chapters mentioned above, for example the need, for a number of countries, to establish or reinforce independent supervisory authorities for data protection, or in other chapters such as, for instance, **fisheries, statistics or economic and monetary union**. These priorities are specifically identified in each Regular Report and taken up in the proposed revised Accession Partnerships for each candidate country.

The Regular Reports also identify those chapters which do not pose major difficulties of administrative capacity, either because, in those chapters, there is little administrative capacity needed for the implementation of the *acquis*, or because the countries' preparedness can in general be considered adequate.

The conclusions of the Regular Reports, country by country, are contained in **Annex 1**.

c) EMU and the EURO

Candidate countries need to prepare for participation in the multilateral surveillance and economic policy co-ordination procedures currently in place as part of Economic and Monetary Union. One of the economic priorities of previous Accession Partnerships was the establishment of an annual pre-accession fiscal surveillance procedure. It consists of two elements: the fiscal notification and the Pre-accession Economic Programme (PEP), which are discussed in a multilateral setting with Member States.

The framework of exchange rate strategies for the candidate countries has been clarified. Three successive stages in the transition process towards adoption of the euro, namely, the pre-accession stage, the stage following accession and the adoption of the euro are identified. Any unilateral adoption of the single currency by means of "euroisation" would run counter to the underlying economic reasoning of EMU in the Treaty, which foresees the eventual adoption of the euro as the endpoint of a structured convergence process within a multilateral framework. Therefore, unilateral "euroisation" would not be a way to circumvent the stages foreseen by the Treaty for the adoption of the euro.

Regarding the ERM-II, some time after accession, new Member States will be expected to join the ERM II. The ERM II could accommodate the main features of a number of exchange rates regimes, provided their commitments and objectives are credible and in line with those of the ERM II. The only clear incompatibilities vis-à-vis the ERM II that can be identified already at this stage are fully floating exchange rates, crawling pegs and pegs against anchors other than the euro.

III. Making a success of enlargement

The Göteborg European Council has set a high level of ambition. It concluded that "provided that progress towards meeting the accession criteria continues at an unabated pace, the road map should make it possible to complete the accession negotiations by the end of 2002 for those candidate countries that are ready. The objective is that they should participate in the European Parliament elections of 2004 as members".

Meeting these objectives will require efforts from both the Union and the candidate countries. The Union should define common positions within the timeframe provided by the road map. The candidate countries must continue preparations to meet fully the accession criteria, with particular attention to enhancing their administrative capacity to implement the *acquis*. Indeed, progress in the negotiations is based on convincing progress in adopting, implementing and enforcing the *acquis*.

1. Following the road map - the remaining chapters

Considerable progress has been achieved in the negotiations. Candidate countries have communicated their positions with respect to the *acquis* under the various negotiating chapters, including their requests for transitional measures. In many cases where candidates have provided sufficient commitments to apply the *acquis*, chapters have been provisionally closed (see **Annex 6**). The number of provisional closures of chapters, however, does not always give an accurate picture of the state of negotiations. In some cases under negotiation, only few issues of political importance remain; these can be solved if the necessary political decisions are taken.

The road map has proved to be useful in ensuring that all negotiating parties commit themselves to a realistic timetable. The Commission's report to the European Council in Ghent has reviewed the track record and outlined a number of issues where decisions still need to be taken during the Belgian presidency². The paper identified a number of issues at stake on which the EU needed to define a position in the context of the chapters on transport, taxation, agriculture, justice and home affairs and energy. The Commission has in the meantime, where possible, forwarded negotiating positions on these chapters to the Council and the Belgian Presidency is swiftly advancing in defining negotiation positions. In the context of the last mentioned chapter, the Communication underlined the need to examine the positions of the candidate countries on the EU recommendations on nuclear safety and that "*concerning non-upgradable units [of nuclear power plants] – Ignalina (Lithuania), Bohunice-VI (Slovakia) and certain units of Kozluduy (Bulgaria)- closure commitments must be respected, and therefore duly included in the Accession Treaties.*"

The commitment of the Union to define common positions within a certain time frame, also in areas where there are particular difficulties, has sent a positive signal to the candidate countries. In doing so, the Union has shown the necessary flexibility in taking positions that are important in terms of public acceptability, both in the Union and in the candidate countries. This approach should be maintained.

According to the road map for the first half of 2002, the Union will define common positions with a view to closing provisionally the last group of chapters: agriculture, regional policy, financial and budgetary provisions, institutions and 'other matters'. The Commission will submit the necessary proposals to the Council in good time. In preparing its proposals, the Commission will be guided by the approach outlined below.

² Communication of the Commission: Information Note to the European Council on a mid-term review of the implementation of the enlargement strategy, COM (2001) 553 final of 2 October 2001.

a) The financial framework and related chapters

The chapters of the negotiations concerning agriculture and regional policy have important budgetary components and are related to the chapter concerning financial and budgetary provisions. Negotiations on these three chapters must therefore be conducted within a coherent overall framework.

The Berlin European Council in March 1999 agreed the financial framework for the period 2000-2006, including arrangements for enlargement based on the assumption that 6 new members would accede in 2002. The results were laid down in an inter-institutional agreement between the Parliament, the Council and the Commission.

The comprehensive agreement reached in Berlin covered at the same time policy reform and the reservation of the necessary funds for pre-accession and accession, including:

- a maximum ceiling for total payments (set at 1.27% of GNP) and absolute ceilings for annual budgetary commitments for each category of expenditure (the Financial Perspective for the period 2000-2006). Together, the absolute ceilings were expected to stay well below the maximum ceiling of 1.27%, including after enlargement;
- the reform of the common agricultural policy, structural and cohesion funds;
- the doubling of pre-accession support for the candidate countries (€3.1 billion per year³);
- amounts reserved for the financing of accession, gradually increasing from € 6.5 billion in 2002 to €16.8 billion in 2006.

The assumptions underlying the Berlin agreement have changed, notably as regards possible dates for accession and the potential number of new Member States.

However, if it is assumed that the first accessions will take place in 2004 instead of 2002 and that more than 6 and up to 10 new Member States will join, the updated cost of enlargement in each of the years 2004-2006 would stay below the amounts agreed in Berlin. This takes into account updated information on agricultural production and consumption data in the 10 candidates.

The annual amounts reserved for accession in the Financial Perspectives increase substantially from 2002 to 2006. Since the first accessions will take place later, the annual amounts needed for the corresponding years are smaller than if the first accessions had taken place in 2002. This allows the Berlin figures to accommodate a larger number of up to 10 new Member States.

The Commission will present proposals to the Council for common negotiation positions in the fields of agriculture, regional policy and budgetary issues on the basis of the existing *acquis* and the principles inherent in the Berlin agreement. The

³ All amounts are commitment appropriations in constant 1999 prices.

accession negotiations can thus be concluded independently of decisions for financing the EU after 2006.

The Commission will ensure that the budgetary implications of its proposals for common negotiation positions are in line with the expenditure ceilings agreed in Berlin for the period until 2006, incorporating the foreseen necessary adjustments for the potential number of new Member States. In particular, the Commission will, without prejudicing future decisions for the financing of the EU:

- in the *agriculture* chapter, examine how to tackle the issues of direct payments and supply management instruments in the negotiations;
- in the area of *structural policy*, identify the organisational and institutional conditions to be met by the various countries for provisionally closing the negotiations in this chapter as well as explain the method for the allocation of the structural funds to new Member States until 2006;
- as to the *budget* chapter, examine possible transitional arrangements.

The Commission will ensure that the Council can debate these issues in a common framework early in 2002, with a view to preparing the further pursuit of the accession negotiations in line with the road map.

b) Other chapters

The chapters 'Institutions' and 'Other matters' have not yet been opened with any of the candidates. Following the road map, the Union should also define its positions on these chapters in the first half of 2002.

The institutions chapter concerns the inclusion of new Member States in the Union's institutional framework. As the Union emphasised at the opening of the accession negotiations, membership involves both rights and obligations. The Union expects new members to comply with the obligations of membership, subject to the conditions agreed in the accession negotiations. The new members will exercise their rights, on the same terms as other Member States, through participation in the EU institutions. Traditionally, the chapter 'Institutions' has been handled in accession negotiations after all the other chapters relating to the *acquis*.

In the present negotiations, the chapter 'Institutions' will be based principally on the conclusions of the Intergovernmental Conference at Nice in December 2000, and in particular on:

- the provisions set out in the Treaty of Nice, including particularly the dispositions for adjustment of the institutions in the perspective of enlargement;
- the provisions set out in the Declarations of the Intergovernmental Conference, including particularly Declaration no. 20 on the common positions to be adopted in the accession negotiations in matters relating to the distribution of seats in the Parliament, the weighting of votes in the Council, and the composition of the Economic and Social Committee and the Committee of the Regions.

The conclusion of the new Treaty at Nice reaffirmed the Union's firm commitment to the enlargement process. It is now in the process of ratification by the Member States. The Commission notes that the Treaty has been ratified by three Member States and in most other cases ratification is proceeding satisfactorily. In the case of Ireland, following the referendum in June 2000, the Irish government is organising a national convention to clarify the issues related to the Treaty.

The Commission hopes that Member States will complete the process of ratification, as planned, in the course of 2002. The Commission will liaise with the Presidency concerning the appropriate timing and procedure to be envisaged for the institutional chapter, taking account of progress in the ratification of the Nice Treaty.

The final chapter of the negotiations, as in the case of previous accession negotiations is '*Other matters*'. This chapter serves as a framework for questions not covered in the preceding chapters – notably, problems which are not directly related to the *acquis*. In the preceding accession negotiations, for example, discussions under the chapter '*Other matters*' led to a number of declarations on transparency, the status of 'certain territories', etc., which were subsequently annexed to the Accession Treaty. It will become clear in the course of 2002 what questions may need to be handled under this chapter in the present negotiations.

2. Action plan for administrative and judicial capacity

Member States need an adequate level of administrative and judicial capacity to implement and enforce the *acquis*. This is why successive European Councils have insisted on institution building in the run up to accession.

A stable **public administration** with an independent civil service is a common objective for all candidate countries. Most have made impressive efforts in the field of public administration reform and have implemented civil service reforms. Some have taken steps to attract good staff and to improve their quality by training and better remuneration. Nevertheless, as reflected in the Regular Reports much remains to be done. In addition, a number of candidate countries need to intensify the fight against corruption.

A predictable and efficient **judicial system** is also essential for the citizen and business. Work has progressed on the reform of the judiciary in most candidate countries but in a number of countries the strengthening of the independence of the judiciary, the improvement of remuneration and working conditions as well as the training of judges still need to be further pursued.

In a number of chapters related to the *acquis*, the major challenges have been identified above (section II 3 b). They concern the administrative capacity to ensure:

- First, a **smooth functioning of the internal market**. This often requires appropriate and effective regulatory authorities such as competition authorities, telecommunications, energy or transport regulators or implementation of appropriate information technologies.
- Secondly, **sustainable living conditions in the European Union**. This needs to be ensured, inter alia by assuring application of environmental standards, imposing

appropriate levels of health and safety at the work place, ensuring a high level of nuclear safety and improving transport safety. These measures require a number of inspection arrangements.

- Thirdly, the ***overall protection of the European Union's citizens***. This needs to be ensured, inter alia, by securing borders for a variety of purposes, adequate market surveillance for consumer protection, enforcing sufficient levels of food safety and co-operation in the field of justice and home affairs. These measures require various inspection and law enforcement arrangements
- Fourthly, the ***proper management of Community funds***. This requires appropriate structures in central and regional administrations for application of public procurement rules, financial control, audit, fight against fraud and corruption.

The Regular Reports and the proposed revised Accession Partnerships identify in detail the areas where actions need to be undertaken by each candidate country in order to achieve an adequate level of administrative capacity.

To identify the next steps, the Commission will establish an ***action plan***. It will analyse with each of the candidate countries, early in 2002, their approach to implement these priorities and, if necessary, their intentions to reinforce efforts for institution building. Furthermore, the Commission will undertake specific monitoring actions, where appropriate together with Member States and the candidate countries.

The action plan will:

- *be based on the priority areas* identified in the revised Accession Partnerships, the Regular Reports and commitments made in the negotiations;
- *identify actions* already under way to build administrative capacity and mobilise further means to *reinforce* such efforts (using established mechanisms such as twinning or TAIEX - see Annex 3 and 5);
- *confirm or initiate monitoring mechanisms* such as monitoring reports, peer reviews etc which will ascertain the state of preparation of each candidate country.

The action plan will, as the Regular Reports and the proposals for revised Accession Partnerships, reflect each negotiating country's situation and take into account the accession dates envisaged by them.

a) Reinforcing Institution Building Actions

Substantial Community assistance is already being provided to the candidate countries to help them develop adequate administrative capacity to implement and enforce the *acquis*. Altogether up to two thirds of national PHARE programmes has been earmarked for institution building and related investment. Programming has been accelerated and national annual assistance programmes should be adopted much earlier in 2002 than in previous years.

Moreover, the Commission will, over and above the yearly budgetary envelope identified in 1999 for each of the 10 PHARE countries, allocate up to € 250 million

from the existing PHARE programme to additional institution building efforts in 2002. This *supplementary institution building facility* constitutes an offer to candidate countries that should be taken up and programmed by Summer 2002. Similar weight could, if necessary, be put on the allocation of the pre-accession assistance for institution building in the case of Malta and Cyprus.

The Commission will analyse with the candidate countries the need to continue with additional institution building efforts in the 2003 programming exercise. Institution building projects could then, under the usual Commission rules on contracting and disbursement, continue on the ground at least for three more years.

These efforts are supplementary to the major efforts each candidate country is making, often assisted by PHARE and by bilateral actions of the Member States, international organisations and international financial institutions.

b) Enhanced Monitoring

Monitoring actions are already underway. The Commission regularly provides the Council with detailed monitoring tables and reports that look at the way commitments undertaken in the framework of negotiations have been implemented. These also concern commitments on building up adequate administrative capacity.

The Commission does not always have the relevant expertise to judge the readiness of the candidate countries' administrations since implementation is largely up to Member States. This is why in a number of areas *peer reviews* have been established. Peer reviews allow candidate countries to involve experts from Member States and the Commission in the evaluation of administrative capacity. Peer reviews have already started or are being considered in the field of financial services, justice and home affairs, budget, agriculture, nuclear safety and environment. The Commission will provide practical support in particular through the Technical Assistance Information Exchange Office (TAIEX) or through other mechanisms (for example SIGMA).

The Commission will inform the Council of peer reviews or any other relevant action to assess administrative capacity in candidate countries by Spring 2002. This will allow the results of these actions to be taken up in the single framework of the accession negotiations.

Peer reviews are not a panacea. They complement the ongoing monitoring process. They should only be used where appropriate and should focus on areas of particular concern identified by the Regular Reports, proposals for revised Accession Partnerships or in the course of the negotiations.

These activities will contribute to the monitoring of commitments made by candidate countries during the accession negotiations. The Commission will report on its action plan, including on the monitoring of these commitments, by the time of the Seville European Council in June 2002

The 2002 Regular Reports will then closely examine what has been done and whether, in the different areas of the *acquis*, the candidate countries will be able to have the adequate structures in place to implement and enforce the *acquis* by accession.

c) Administrative capacity beyond accession

Member States are expected to adjust regularly their administrative capacity to the evolving needs of the *acquis*. Building up an adequate administrative capacity is a process that will not end with the conclusion of the negotiations; indeed, the process will continue up to accession and beyond.

During the period between the signature of accession treaty and the actual accession of the countries concerned, the Commission will continue to follow developments on issues identified in the course of the accession negotiations. In addition, it will also follow developments on economic issues identified in the assessment of the economic criteria. It will report accordingly to the Council.

Pre-accession programmes will continue to operate during that period. For the first acceding countries, 2003 may be expected to be the last year in which pre-accession funds are programmed. Training of civil servants may become one of the most important needs in this period. Implementation will normally continue for up to three years. Transitional arrangements for the management and eventual closure of the programmes in the first years after accession need to be defined.

For the period after accession, the Commission will check, in its role as guardian of the Treaties, how the *acquis* is implemented by the new Member States, using the same mechanisms applied to existing Member States. Such mechanisms include periodic Commission reports to the Council on the application of Community law, infringement proceedings, and dialogue between the Commission and the Member States on implementation problems (such as the internal market problem-solving network or co-ordination centres).

Benchmarking and peer pressure are increasingly used inside the Union in order to develop interoperable and compatible administrative structures. The participation of candidate countries in Community programmes and agencies already contributes to the effective integration of the candidate countries. The *e-Europe* initiative, national employment strategies or activities in the context of the EMU have already been extended to the candidate countries through *e-Europe plus*, the Joint Assessment of Employment Policy Priorities in preparation for their participation in the European Employment Strategy and the pre-accession economic programmes. Candidate countries should continue on this road towards integration into existing policies and mechanisms of the EU.

In addition, the new Member States will benefit from any new mechanisms that may be introduced in order to improve the implementation of Community law. In its White Paper on Governance, the Commission has indicated that it will propose in 2002 twinning arrangements between national administrations to share best practice in implementing measures, drawing on the experience with candidate countries, and promote the knowledge of Community law with national courts and lawyers. The introduction of such twinning between Member States would allow candidate countries to continue to benefit from such arrangements after accession. This would contribute to a better implementation of the *acquis* in an enlarged Union.

3. Turkey's pre-accession strategy – towards a new phase

The implementation of the pre-accession strategy, defined by the Helsinki European Council, is now well underway. By the end of this year, all elements of this strategy will be in place. In the next phase, attention will turn to a more detailed preparation for EU membership requirements.

In this new phase, Turkey is encouraged to intensify and accelerate the process of *political and economic reforms* in line with the Accession Partnership priorities. This entails further constitutional, legislative, administrative and judicial reforms aimed at bringing Turkey closer to EU standards. The recent constitutional reform and the implementation of the new economic plan are a promising start of this process.

Fuller use should be made of the *enhanced political dialogue* to further stimulate progress on key issues which are priorities of the Accession Partnership, such as human rights, Cyprus and the peaceful settlement of border disputes.

The support Turkey has expressed in the political dialogue for the UN Secretary General's efforts to find a comprehensive solution of the *Cyprus problem* should now be followed by concrete steps by Turkey to facilitate a solution.

On *European Security and Defence policy* (ESDP), Turkey should be forthcoming in solving the issue of the modalities for participation in decisions on EU-led operations in view of the decision to be taken by the Laeken European Council, in accordance with the Nice European Council conclusions.

A number of confidence building measures in the context of *Greek-Turkish relations* are being further developed and implemented. This should create a climate conducive to the peaceful settlement of border disputes in line with the Helsinki European Council conclusions.

Financial assistance will be used to help Turkey meet Accession Partnership priorities. Turkey is invited to strengthen its administrative capacity for project design and management in keeping with the de-centralised approach followed with all candidate countries. The Commission will mobilise advice and assistance from Member State experts to support Turkey's efforts. On the basis of the framework agreement to be signed between the EU and Turkey on Turkey's *participation in Community programmes*, Turkey is invited to put into place effective structures for the management of these programmes, in particular in the field of education.

The negotiations on the extension of the Customs Union in the area of public procurement and public services are to be finalised as a matter of priority.

The Feira European Council asked the Commission to report on *progress in preparing the process of the analytical examination of the acquis*. This report is annexed to the Regular Report 2001.

On the basis of experience to date and of the gaps that have been identified in Turkish legislation and administrative preparations for membership, it is now recommended that a new phase starts in the pre-accession strategy. This will involve detailed scrutiny of Turkey's legislation and its timetable for alignment with the *acquis*. In this phase,

particular attention will also be given to the capacity of the Turkish administration and judiciary to implement and enforce the *acquis* effectively.

Henceforth, the EU and Turkey will engage in a more detailed dialogue on the requirements for the transposition, implementation and enforcement of the *acquis*, focussing on precise sectoral issues to be examined by the relevant experts in the existing fora. Sub-committee agendas will therefore focus on detailed priorities for action. Turkish officials will receive additional and more detailed information on specific parts of the *acquis*. EU experts will review draft legislation under preparation in Turkey. Workshops on selected issues will be organised by TAIEX.

Turkey will be invited to contribute actively to the Commission's database on the approximation of legislation to permit detailed and continuous monitoring of progress.

It is recommended that the EC-Turkey Association Committee at its next meeting should establish the subjects on which this process will focus and the schedule of meetings.

4. The next steps

a) Meeting the accession criteria

Accession requires that candidates fulfil the conditions for membership, that is the political and economic criteria, and the ability to take on the obligations of membership. The Commission will give a favourable recommendation on the accession of a country if it is convinced that it will be able to meet the criteria by accession.

This year's Regular Reports and the present stage of the accession negotiations do not yet allow the Commission to conclude that the conditions for accession are fulfilled by any of the candidate countries. However, given the present pace of negotiations and the progress made so far, the Commission should be able to make recommendations on which candidate countries are ready for accession on the basis of its 2002 Regular Reports. Among the twelve negotiating countries, ten have target dates of accession compatible with the Göteborg timeframe.

The reforms still needed in each country are identified in this year's Regular Reports and revised Accession Partnerships. In its 2002 Regular Reports, the Commission will complement its assessment of progress made on the implementation of these remaining reforms with an evaluation of each country's track record since the Opinions. The Union should, thus, be prepared to conclude the accession negotiations by the end of the Danish Presidency in 2002 with countries meeting the necessary conditions and in view of their accession in 2004.

b) The first accessions

The conclusions of the accession negotiations will be embodied in a treaty of accession, bringing together, probably as in past accessions in one legal instrument, the results of the separate accession conferences. The drafting of the legal texts requires technical preparation, which has already started.

For the last enlargement, this legal instrument – consisting of a brief treaty and a lengthy Act of Accession mainly devoted to the technical adaptations of secondary legislation necessary for the accession of the four applicant countries concerned. It also included a provision for adaptation of the treaty in the event that a candidate country failed to ratify; this permitted the treaty to come into force in spite of the rejection of ratification in Norway.

For the next accession treaty, work on drafting should start in the first half of 2002 within the framework of the Council and the accession conferences. The Commission will assist by making the necessary technical proposals. It will also identify those parts of the *acquis* which require technical adaptations and will provide the Council with an inventory of all such technical adaptations, taking into account the information collected from each candidate country.

Enlargement will be subject to approval on the Union's side by the Council and by the European Parliament, taking account of the final Opinion which the Commission will submit on the outcome of the negotiations. The Treaty resulting from the accession negotiations will then be formally signed by the parties concerned (Member States and candidate countries) and submitted for ratification by the contracting States in accordance with their respective constitutional requirements.

c) Other negotiating candidate countries - towards an updated road map

For those negotiating candidate countries which will not form part of the first accession, the Commission will continue to issue Regular Reports, until the overall level of preparation allows them to fulfil the criteria for accession. The European Union will continue to lend its full support to the preparations for membership by these candidates.

Negotiations will be pursued with them, on the basis of the principles that have guided the accession process from the beginning. The opening of all 29 *acquis* related negotiating chapters should be possible next year, provided the candidates are sufficiently prepared.

In its 2002 Enlargement Strategy Paper, the Commission will set out an updated road map, and, if necessary, a revised pre-accession strategy, for such candidates, taking into account the progress made in the next year and the conclusions of the Göteborg European Council.

IV. Conclusions

In the light of the above the European Commission recommends to the European Council to conclude on the basis of the following elements:

- 1) The Regular Reports show that all negotiating countries have made substantial progress over the last year in implementing the accession criteria, which, together with the road map, has permitted considerable advances in the negotiations.
- 2) The principles for this process remain unchanged. The Berlin European Council has set out a clear framework for the financial aspects of enlargement. This framework provides a sufficient basis for the accession of up to ten new Member States in 2004. The European Council of Nice has defined the framework for the institutional reform necessary for enlargement. Negotiations are conducted on the basis of the existing *acquis* and will be concluded with those candidates that fulfil all the criteria for membership, applying the principles of own merits and catching-up. These are the necessary and sufficient conditions defined at the outset for accomplishing the first accessions.
- 3) To this end, the road map should be followed as foreseen. The EU will now have to determine common positions for the remaining chapters. The Commission will ensure that the Council can debate financial issues in a common framework early in 2002 and will present proposals to the Council the fields of agriculture, regional policy and budget on the basis of the existing *acquis* and the principles inherent in the Berlin agreement. The accession negotiations can be concluded independently of decisions for financing the EU after 2006.
- 4) This year's Regular Reports and the present stage of the accession negotiations do not yet allow the Commission to conclude that the conditions for accession are fulfilled by any of the candidate countries. Given the present pace of negotiations and the progress made so far, the Commission should be able to make recommendations on those candidate countries ready for accession on the basis of its 2002 Regular Reports. Among the twelve negotiating countries, ten have target dates of accession compatible with the Göteborg timeframe. The Union should therefore be prepared to conclude accession negotiations by the end of the Danish Presidency in 2002, in view of accession in 2004, with all countries meeting the necessary conditions. Necessary administrative preparations inside the Institutions are already under way and should be continued.
- 5) In the framework of an action plan, the Commission will analyse by early 2002 with each of the candidate countries their on-going efforts for institution building and, if necessary, their intentions to reinforce them, using a supplementary institution building facility. The Commission will inform the Council on monitoring actions including peer reviews by Spring 2002, so that they can be taken up in the single framework of the accession negotiations. The Commission will, by the time of the Seville European Council in June 2002, report on its action plan including on the monitoring of commitments made by the candidate countries during the accession negotiations. The 2002 Regular Reports will examine whether

the candidate countries will have, by accession, adequate administrative capacity to implement and enforce the *acquis*.

- 6) Negotiations will be pursued with those candidates, which will not form part of the first accessions, on the basis of the principles that have guided the accession process from the outset. The opening of all 29 *acquis* related negotiating chapters should be possible next year, if the candidates are sufficiently prepared. In its 2002 Enlargement Strategy Paper, the Commission will set out an updated road map, and, if necessary, a revised pre-accession strategy, taking into account the progress made in the next year and the conclusions of the Göteborg European Council.
- 7) All candidate countries should be associated as far as possible to the Lisbon process. Candidate countries will be involved in the discussions on the future of Europe and in the Convention which will prepare the way for the next Intergovernmental Conference.
- 8) The parties involved in efforts to resolve the Cyprus problem need to take full advantage of the window of opportunity before the completion of the accession negotiations to achieve a settlement. Provided the necessary political will is shown, a settlement reflecting the concerns of the respective parties is attainable through the process under the auspices of the United Nations. It is particularly important that the Turkish Cypriot leadership should re-engage in the UN process. The provisions of a political settlement can be accommodated within EU accession arrangements for Cyprus in line with the principles on which the EU is founded. However, as decided by the European Council in Helsinki, if a settlement has not been reached before the completion of the accession negotiations, the Council will take its decision on accession, without this being a pre-condition, in accordance with the Helsinki European Council conclusions.
- 9) By the end of this year, all elements of the pre-accession strategy for Turkey, decided by the European Council in Helsinki, will be in place. The pre-accession strategy should move into a new, more intense phase, with the detailed scrutiny of Turkey's legislation and preparation for alignment with the *acquis*. Turkey is encouraged to pursue the process of political and economic reform, in order to make further progress towards satisfying the Copenhagen criteria and the Accession Partnership priorities. In the short term, particular importance is attached to improving the respect for human rights in practice and to creating the conditions for economic stability and growth. Turkey should be forthcoming in working towards a solution of the Cyprus problem. Furthermore, Turkey should contribute actively to overcome the differences that have arisen over the European Security and Defence Policy.
- 10) To ensure that the public in Member States and in candidate countries is well informed about the process of enlargement, its implications and its potential benefits, the communication strategy will be pursued with the full assistance of Member States and the European Parliament. Indeed, it is imperative that the historical process of re-unifying the European Continent is strongly rooted in the support of its people.

Annexes

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. Over the past year, further efforts have been made in this direction. Bulgaria continues to fulfil the Copenhagen political criteria.

Since last year, further progress has been made in public administration reform. Many employees have civil servant status and there is now a Code of Ethics for Civil Servants. The Law on Access to Public Information is a positive step, but needs further clarification to ensure effective implementation. Further steps are needed to ensure an efficient, transparent and accountable public administration.

The recent adoption by the government of two strategies, one on judicial reform and the other on combating corruption, is a significant development. The challenge now is to implement these. The judicial system remains weak and there is as yet no reason to change the assessment made last year that further efforts are needed for it to become strong, independent, effective and professional and able to guarantee full respect for the rule of law as well as effective participation in the internal market. Corruption has continued to give serious cause for concern. Enforcing the legal framework effectively presents a challenge and greater focus is needed on prevention of corruption.

Some progress has been made on human rights training of police and on combating trafficking of human beings. However, there is a need to address police behaviour, notably as regards reported cases of ill-treatment. continues to give cause for serious concern.

A child protection agency and a national advisory council for child protection have been set up. Further steps need to be taken to make the Child Protection Agency operational. On child welfare, there is not yet a significant change in the number of children in institutions. Poor conditions in some homes for children with mental disabilities are cause for concern.

Roma continue to suffer from widespread social discrimination. Political commitment from the government to remedy their problems has still not been matched by concrete action. One more positive development is that some NGOs have pursued projects on desegregation of Roma schools.

Very little further progress has been made to meet the Accession Partnership priority to start implementation of the Roma Framework Programme, and to strengthen the National Council on Ethnic and Demographic Issues.

Concerning other related Accession Partnership priorities, Bulgaria has made further progress to implement the Civil Service Law. However, the priority of strengthening the judiciary has not yet been met.

Bulgaria is close to being a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided it continues implementing reform and intensifies the reform effort to remove persistent difficulties.

The Bulgarian macroeconomy is going into its fourth year of stable conditions, having established a satisfactory track record of macroeconomic performance. Good progress has been made in privatisation, especially as regards banks, and with structural reform, setting the microeconomic basis for sustained growth.

However, inflation has risen considerably in 2000. Investment remains insufficient. Financial intermediation continues to be low and inefficient. Specific deficiencies remaining in the land market affect the performance of this market and of other economic sectors. The authorities should give priority to strengthening the judiciary and the enforcement of the regulatory framework. Administrative obstacles to private sector development, affecting enterprise creation, their development and their closing down, including bankruptcy procedures, must be eliminated. A sustained implementation of these reform measures and higher levels of private and public investment are key requirements for sustainable growth, and building up competitiveness.

Bulgaria has continued a good pace of alignment of legislation with the *acquis* but still needs to pay more attention to how this will be implemented and enforced. Progress on public administration reform has continued and is a positive sign. This needs to be sustained to ensure public administration is prepared for its role at EU accession. However, little has been done to prepare the judicial system, which needs to be modernised and strengthened, in particular to ensure effective enforcement of the *acquis*.

Regarding the internal market, Bulgaria has made further progress in most areas. In free movement of goods progress continued with membership of European Accreditation as a major achievement. Reinforcement of administrative infrastructure for standardisation and certification, and of market surveillance systems, is still necessary. On financial services, Bulgaria has developed sound banking supervision practices. Company law has been further aligned and the legal framework for protecting intellectual and industrial property rights improved, but further steps are needed to ensure this is enforced. On state aids, Bulgaria is at last starting to develop and implement a framework for state aids but this is not yet compatible with the *acquis*. Bulgaria still lacks a legal framework on data protection compatible with the *acquis*.

In agriculture, Bulgaria has continued generally good progress on approximation of legislation but implementing the *acquis* poses a significant challenge. Veterinary and phytosanitary inspection arrangements need further upgrading. The partial accreditation of SAPARD is a noteworthy success. Progress on fisheries has accelerated compared to previous years.

Whilst progress has been made to amend labour law towards alignment with the *acquis*, progress on equal treatment legislation remains slow. Whilst administrative capacity of the general labour inspectorate has been reinforced, the capacity to implement the *acquis* on occupational health and safety will need to be increased.

Concerning regional policy, Bulgaria has made little further progress and much more attention needs to be paid to preparation for implementing structural policies.

Bulgaria has continued its positive efforts on transposition of the EC environmental *acquis* but implementation and the cost of alignment remain a challenge.

The pace of progress on transport has been pursued both on adoption and creation of implementing structures. There has also been an increase in investments.

The restructuring of the energy sector has progressed at a very slow pace throughout 2001 following delays in the planned revision of the legislative framework. These delays have hindered efficiency improvement and preparation for privatisation. As regards nuclear energy, Bulgaria must respect the de-commissioning commitments of the Memorandum of Understanding and ensure a high level of nuclear safety.

In justice and home affairs, further progress has been made in most areas in terms of legislation but progress on strengthening administrative capacity was not as strong as required. Some progress has been made on control of external borders; however, there is scope for further improvement, in particular in inter-agency co-operation.

In external policies, Bulgaria's performance remains strong, continuing to make a substantial contribution to regional stability and following the path of trade liberalisation with the EC and its preferential partners.

For customs and taxation, Bulgaria will need to develop IT systems that allow for exchange of data with the EC.

Further progress has been made to strengthen financial control and on improving public expenditure management and control. Efforts should be pursued.

Whilst some progress can be noted on establishment of the institutions necessary to implement the *acquis* and on public administration reform, the capacity of the Bulgarian administration remains limited. Further sustained progress and allocation of the necessary resources will be necessary to meet the challenges ahead. Further efforts are also required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

Whilst work on public administration is progressing, the slow pace of preparation of the judicial system to enforce the *acquis* is worrying. Progress on judicial reform needs to be substantially accelerated.

Bulgaria has fulfilled partially and made progress since last year on all of the short-term Accession Partnership priorities relating to the *acquis*. Concerning administrative capacity, Bulgaria has moved forward on priorities, with the exception of that of strengthening the judiciary, where little progress has been made. The implementation of the recently adopted strategy for judicial reform should make a difference. Bulgaria has started to address the majority of medium-term Accession Partnership priorities.

Cyprus

Cyprus continues to fulfil the Copenhagen political criteria. Further efforts have been made to prepare the administration for operation within the EU, and the authorities' record on democratic and human rights remains generally good.

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

The macroeconomic situation has continued to be robust with high GDP growth, low inflation and unemployment. The fiscal consolidation plan introduced in 1999 is successfully addressing some important structural deficiencies in public finances. Progress has been made in structural reforms, notably within the financial sector, the environment, and healthcare. Both the financial sector and the capital account took major steps towards greater liberalisation.

However, the current account deficit increased significantly. The welcome liberalisation of the financial sector and the capital account pose new challenges to the economy. Cypriot authorities should ensure a proper and uniform supervision of the financial sector, including the co-operative banking sector. In cases where prices are regulated, a more market-based approach should be adopted. Cyprus must continue to prepare its private sector to operate in the single market environment that integration in the EU implies, by opening key sectors to foreign competition.

During the period covered by this Regular Report, Cyprus has achieved substantive progress in different areas of the *acquis* and has continued at steady pace with further legislative alignment as well as with the setting up and upgrading of the necessary administrative institutions. The alignment process has gradually accelerated. However, there remain still a considerable number of laws to be adopted.

Over the last year, there has been progress in important areas of the internal market. Concerning *free movement of goods*, the adoption of EN standards has been accelerated and new legislation was passed as regards sector specific legislation. However, continuing serious efforts are required to transpose and implement the *acquis*, in particular as regards the framework law on the new and global approach principles and subsequent regulations for the transposition of the New Approach Directives. Furthermore, an overall strategy for better co-ordination of the authorities responsible for market surveillance should be developed. Although Cyprus has undertaken certain measures to abolish inconsistencies with the *acquis* in the area of *free movement of persons* in particular as regards the co-ordination of social security systems, important legislative work remains to be done before accession. Concerning *financial services* good legislative progress can be reported, and the overall standard of supervision appears to be satisfactory. Particular importance should be given to the restructuring of the co-operative and saving societies sector. The liberalisation of *capital movements* has continued and should be maintained to ensure a proper functioning of the markets upon accession. Significant measures to combat money laundering have been undertaken e.g. with the inclusion of lawyers and accountants within the scope of application of the relevant legislation. Cyprus has also tightened its measures relating to the identification of account holders and reporting of transactions in accordance with the recommendations of various international fora. The harmonisation process should be accelerated with regard to *intellectual and industrial*

property rights. The effective application and enforcement of state aid rules, including the alignment of existing aid schemes as regards in particular the tax regime for the off-shore sector, should be ensured.

Partial progress has been made in the field of *agriculture* but substantial elements and mechanisms of the *acquis* remain to be applied as regards in particular the Common Market Organisations and the veterinary and phytosanitary sectors.

In the field of *fisheries* the reinforcement of the administrative capacity has continued. Additional progress is needed with regard to the current and planned structure of the fishing fleet under Cypriot flag. Significant progress has been made in nearly all sectors of *transport policy* particularly as regards maritime transport where safety controls have been improved. The performance of the classification societies should be monitored.

While recognising the efforts made and the initiatives taken to further align the *tax legislation* with the *acquis* by way of e.g. the scheduled tax reform, concerns remain on the harmonisation of the level of indirect taxation and the special regime of direct taxation for off-shore companies.

Concerning *telecommunications*, there is a considerable delay in the adoption of legislation and the preparation of secondary regulatory instruments to transpose key parts of the *acquis*.

On *environment*, good progress can be reported. Cyprus has continued with harmonisation measures both as regards legislative alignment as well as strengthening administrative capacity. Particular attention should now be paid to proper implementation and enforcement.

In the area of *justice and home affairs* progress has been made in particular in the fields of border control, migration and in the fight against corruption and fraud. On asylum, although the administrative capacity has been strengthened with the setting up of a refugee authority, no legislative progress can be reported. In the light of increasing numbers of application alignment should be accelerated as regards in particular the criteria for applications and the setting up of an independent appeal authority.

Cyprus has achieved considerable progress in the field of *customs*, leaving only some areas where further alignment is necessary, in particular as regards temporary importation, customs procedures with an economic impact and cultural goods.

As regards *financial control*, Cyprus' financial control system is sound and consistent with European standards; efforts should be undertaken as to the internal control of revenues and the proper management of pre-accession funding and structural funds.

Over the last year, Cyprus has continued sustained efforts to further strengthen its *administrative capacity*. Training programmes have been organised in different sectors, such as co-ordination of social security systems, maritime safety, and justice and home affairs. Furthermore, additional staff has been recruited in key areas such as financial services, company law, veterinary and phytosanitary issues, fisheries, transport, taxation, social policy and employment, telecommunications, environment and justice and home affairs. This allowed Cyprus to reinforce market surveillance

systems in the field of free movement of goods, to improve the due supervision of financial services, to upgrade the inspection arrangements in the veterinary and phytosanitary field and to strengthen its labour inspectorates.

New administrative structures have been set up in order to efficiently apply the *acquis*. Among these are an authority to settle disputes as foreseen in the credit border transfer Directive, a state aid monitoring authority, a new unit within the Department of Road Transport to deal with market access, a Statistical Council, a special group of officials to examine in detail the new structures of the government with regard to equal treatment of men and women, and finally a refugees authority. In other cases, the powers of the existing enforcement bodies have been increased, such as in the case of the Securities and Stock Exchange Commission, the Unit for Combating Money Laundering (MOKAS) and the Commission for the Protection of Competition. Finally, there are plans to set up a new body on pharmaceuticals (Drugs Price Control Committee). In the field of customs, Cyprus has recently started to introduce an updated version of the IT system so as to allow for the exchange of computerised data with the Community.

In future, it is advisable to reinforce the administrative infrastructure for standardisation and certification to enhance the free movement of goods. Further efforts should also be made to strengthen enforcement capacity in the field of intellectual property rights, especially as regards border controls and fight against piracy and counterfeiting. Although progress has been made both in the fields of anti-trust and state aid, the infrastructure, staff, and the rather weak enforcement record of the anti-trust legislation should be improved. As regards taxation, Cyprus should develop IT systems, so as to allow exchange of electronic data with the Community and its Member States. Following the expected nomination of the Independent Regulator in the telecommunications sector his newly established authority should start working soon. An upgrading of the border management in the field of justice and home affairs is imperative. Further efforts are also required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

Overall, the administrative capacity of Cyprus is already largely in place to implement the different aspects of the *acquis*.

Over the last year Cyprus has met the short-term priorities of its Accession Partnership with regard to free movement of capital, environment and financial control. In most other areas the priorities were partially fulfilled. Cyprus has continued to make progress in addressing the medium-term Accession Partnership priorities, and has partially fulfilled a number of them, such as justice and home affairs, regional policy and co-ordination of structural instruments and issues relating to the internal market.

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. Over the past year, further efforts have been made in this direction. The Czech Republic continues to fulfil the Copenhagen political criteria.

The government has also taken steps to improve the functioning of the central and regional administration. However, it is regrettable that the Czech Republic continues to lack a Civil Service Act for its public administration; this is essential for establishing independence, professionalism and stability.

The reform of the judiciary has gained significant momentum. Work in the area of civil law has made good progress whilst efforts continue on criminal law as well as the organisation of the courts and self-government of the judiciary. In particular, a radical reform of the Criminal Proceedings Code has been adopted which aims to increase the capacity to investigate effectively and bring cases efficiently to trial.

Some additional measures to fight against corruption and economic crime have been taken. Nonetheless, corruption and economic crime remain a serious cause for concern, as evidenced by a governmental report which calls on support from the political forces to address the issue.

The Czech Republic has consolidated its internal institutional framework in the field of human rights. However, increased efforts are necessary to better fight the persistent trafficking of women and children.

Considerable efforts have been made by the Czech government as regards Roma and other minorities. However, further measures to combat widespread discrimination are needed, in line with the government policy for the Roma of June 2000. The central government should ensure that all levels of administration, including regional and local, fully abide by and implement the legislation in place as regards minority rights and that the financial resources necessary to do so are available.

Some progress has been made in addressing the Accession partnership priorities although continued efforts are necessary. The government has proposed a *Civil Service Law* to the Parliament but this has not been adopted and implementation of a comprehensive reform has thus not started. Continued and encouraging progress has been made on the *reform of the judiciary*. The majority of the tasks contained in the government's resolution of 1997 concerning the *Roma* have been fulfilled and the government has adopted a long-term policy towards the *Roma*. However, further efforts are needed to implement measures to fight discrimination.

The Czech Republic is a functioning market economy. Provided that it makes further progress towards medium-term fiscal consolidation and completes the implementation of structural reforms, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

The macroeconomic performance has improved overall. Growth has resumed and broadened, while the favourable performance on inflation has been maintained. Efforts are being made to increase the transparency of the public accounts. Sustained high domestic and, in particular, foreign, investment has engendered substantial restructuring and high productivity growth in the corporate sector. Further progress has been made on the restructuring of banks and privatisation of this sector is complete.

However, the current account deficit has widened and the budget deficit has considerably risen, driven by transformation related one-off costs and an accommodating cyclical stance. In addition, the medium-term sustainability of public

finances is not yet assured. Further improvements of the legal framework for market entry and exit, as well as a forceful implementation of the prudential regulations for the financial sector are essential. The authorities should resume the process of disposing of bad loans after the restructuring of banks. Their efforts to privatise or restructure the remaining large state-owned enterprises should be pursued actively so as to strengthen corporate governance and efficiency.

The Czech Republic has made further significant progress in a wide variety of chapters of the *acquis*. Nevertheless, further efforts remain necessary in a number of areas. There has also been progress in strengthening administrative capacity, although this remains hampered by the absence of a legal framework for public administration.

Alignment on the *single market* is overall well advanced, although the remaining gaps need to be filled. On free movement of goods, there has been progress, except for public procurement, and the bodies responsible for standards and certification continue to function well. As regards free movement of persons, transposition needs to be accelerated, in particular as regards mutual recognition of professional qualifications. In the area of free movement of services, alignment with the financial services *acquis* should be pursued. The capacity of the Securities Commission has been reinforced although stronger regulatory powers would be welcome to improve supervision of financial services. As regards free movement of capital, existing anonymous accounts remain to be abolished.

Concerning *competition*, legislation is now largely in line with the *acquis*, and the enforcement record in the anti-trust and state aid fields is reasonably good. In the latter, rigorous and transparent enforcement needs to be demonstrated as regards the steel and financial sectors. The Office for the Protection of Economic Competition is overall well staffed and trained. As regards *company law*, there is a high degree of compatibility with the *acquis*; however, the enforcement and monitoring capacity of the relevant authorities in the field of IPR, such as customs authorities, police, judiciary and trade inspection should be further strengthened.

On *Economic and Monetary Union*, overall a significant part of the *acquis* has been adopted but further efforts are needed to complete alignment as regards central bank independence. Only limited progress has been made on *taxation*, and a number of important issues remain to be tackled on the approximation of VAT and excise duty rates. Also, more concrete progress is needed to ensure the proper and efficient functioning of the tax administration upon accession.

There has been little recent progress on *telecommunications* although overall alignment is satisfactory. The technical conditions need to be put into place to permit the foreseen liberalisation to take place. There has been a significant improvement in legislative alignment on audiovisual policy.

Further progress has been made on *sectoral* policies. As regards transport, road transport legislation has been aligned further, and the Czech Republic has become a member of the Joint Aviation Authority. However, there has been no significant progress in the railways sector. In the energy sector, considerable progress has been made in preparing for entry into the internal energy market for electricity and gas. On industrial policy, a fresh impetus is needed to take forward the restructuring of enterprises.

In the area of *economic and social cohesion*, progress on legal transposition has continued. As regards social policy and employment, alignment has progressed on equal treatment, labour law and health and safety at work. On regional policy, the legal framework for the future implementation of the structural funds has been further completed. However, additional efforts are needed to ensure that the administrative bodies responsible are fully functional, trained and well co-ordinated in order to be ready for implementation of the structural funds upon accession.

In the field of *agriculture*, there has been good legislative progress in the phytosanitary field. However, further work on alignment, for example in the veterinary area, will need to continue across the range of issues of this extensive Community policy. Good progress has been made in setting up the State Agricultural Intervention Fund but further efforts are needed, particularly in the reorganisation of the Ministry of Agriculture.

Good progress has been achieved in transposition of the *environmental acquis*. In particular, the adoption of the Act on Environmental Impact Assessment was a major development. Co-ordination amongst the relevant government bodies needs to be improved, with particular attention to the implications of the ongoing process of decentralisation.

In the field of *Justice and Home Affairs*, progress has been made in particular aligning visa policy, migration policy and on strengthening the legal framework for police and judicial co-operation. The adoption of a high-quality Schengen Action Plan is a positive development. However, significant further efforts are needed to implement government policies for combating organised crime and ‘white collar’ crime via effective policing strategies and organisational measures. As regards border control, whilst checks have improved at official crossings, there are still significant difficulties in intercepting illegal immigrants at the green borders with Slovakia in particular.

A high level of compatibility has been achieved with the *customs acquis*, although the amendment to the Customs Act remains to be adopted, and operational capacity has been improved. Nonetheless, further efforts are needed to ensure that EC-compatible IT systems are fully functional before accession.

Concerning *financial control*, progress has been made in legislative alignment as regards public internal financial control and external audit, although further efforts are needed to develop a comprehensive system of control.

Overall, the *administrative capacity* of the Czech Republic is being strengthened and efforts in this direction need to be pursued, in particular as regards agriculture, the environment, regional policy and border controls. Further efforts are also required to establish the necessary administrative capacity for sound, efficient and controllable management of EC funds.

The large majority of Accession Partnership priorities have been addressed and overall satisfactory progress has been achieved in meeting them. The short term priorities relating to the single market have generally been met although further efforts are needed in some areas. Limited progress has been made on taxation. The priorities relating to agriculture, the environment and Justice and Home Affairs have been partially met.

As regards the medium term priorities, those relating to the single market have been met to a large extent, except as regards public procurement. The priorities on economic and monetary union and on taxation have not been met. Some progress has been achieved in meeting the medium term priorities in the remaining fields, which have generally been partially met.

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. Over the past year, further efforts have been made in this direction. Estonia continues to fulfil the Copenhagen political criteria.

Progress has been made in the modernisation of the public administration by moving to a more results based system and improving public access to information. Efforts have continued to modernise the legal system and improve the functioning of the judiciary through training, court reorganisation and development of I.T. systems. There is however a need to continue the implementation of the public administration reform programme, in particular to improve transparency in personnel matters and coordination across different bodies. As regards the judicial system, Estonia needs to continue to improve the efficiency in dealing with court cases whilst at the same time improving the quality and enforcement of court decisions. There is also a need to further improve citizen's access to justice, in particular by widening the availability of legal aid.

Estonia has continued to make progress with the implementation of concrete measures for the integration of non-citizens. An important positive development is the strengthening of the administrative capacity of the Legal Chancellor's office, including the establishment of branch offices in the north-eastern part of the country. Estonia should maintain the momentum of the integration process. This includes ensuring the efficiency of the naturalisation process, providing access to language training, and raising awareness of the issue across the entire spectrum of Estonian society. Estonia should ensure that the implementation of language legislation respects the principles of justified public interest and proportionality, Estonia's international obligations and the Europe agreement.

Estonia continues to address both the short and medium-term priorities set out in the 1999 Accession Partnership. Specifically, Estonia is implementing concrete measures for the integration of non-citizens including the provision of language training for non-Estonian speakers. Looking forward, meeting these priority objectives requires sustained efforts over time and continued investment of financial resources in order to build upon the positive work that has already been achieved.

Estonia is a functioning market economy. Provided that it continues with and fully implements its reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Estonia has returned to high growth and made further progress in strengthening its macroeconomic performance and stability, restructuring the enterprise sector, and in implementing structural reforms in the utilities and energy sectors. The pension reform has been adopted. The legal, institutional and regulatory framework is in place and enforcement is largely adequate.

Nevertheless, the current account deficit remains high. The labour market is highly segmented leading to high unemployment combined with labour shortages. Initiatives to improve the response of the labour market to economic growth, with a focus on improving education, training and labour market mobility, need to be developed. The restructuring of the oil-shale industry has only just started and should be accelerated. Although partly hampered by lack of effective demand in rural areas, an acceleration of land registration would benefit the functioning of land markets. Estonia must continue to focus on fiscal policy, also in order to keep the current account deficit sustainable.

Overall, Estonia has continued to make good progress in both adopting and implementing the *acquis*. As regards the capacity to implement and effectively enforce the *acquis*, Estonia has most of the necessary institutions in place. These institutions need to be further strengthened and continued efforts are required in specific sectors to further develop administrative capacity.

Concerning the *internal market*, progress has been made in *free movement of goods* in aligning public procurement legislation and adopting standards although there is still a need to harmonise sectoral legislation. For *free movement of persons*, new legislation now ensures the mutual recognition of professional qualifications. In *competition policy* there has been further alignment of legislation which is now largely in line with the *acquis* in anti-trust and state aid. For *consumers and health protection*, good progress has been made in aligning legislation with the *acquis*. As regards *freedom to provide services, free movement of capital* and *company law* where it was reported last year that preparations were already advanced, there has been some further progress in the alignment with the *acquis*. Nevertheless, attention needs to continue to be given to the fight against piracy and control of counterfeit goods.

Concerning *agriculture* important steps have been taken in preparing for the Common Agricultural Policy, including the partial accreditation of the SAPARD agency. Progress has also been made in the phytosanitary sector. Considerable efforts still need to be made, particularly in the veterinary field. Raising food quality standards to EU levels is still a significant challenge. In *fisheries*, administrative structures have been reorganised and work has continued in setting up the Vessel Monitoring System. Further work is necessary, in particular to develop the Fishing Vessels Register, in the area of market policy, and to establish the legislative framework for EC structural aid. Inspection capacity needs to be reinforced.

In *transport* policy, Estonia has continued to make progress in both aligning and implementing legislation. The necessary separation of accounts and the role of the railways regulatory body need to be clarified. In *energy* limited progress has been made. Efforts need to be made in this area particularly as regards the electricity market. Estonia also needs to further develop administrative structures and strengthen the energy market regulator.

For *social policy and employment*, Estonia has made good progress in terms of legal transposition. Further work is required on implementation. There is also a need to actively promote social dialogue. The business environment continues to be favourable to *small and medium sized enterprise* development. In *regional policy* some progress has been made. However, Estonia needs to substantially step up preparations for its administrative capacity to implement EC regional policy after accession.

In *science and research* and *education and training*, Estonia continues to participate in relevant EC programmes. In *telecoms and IT* and *culture and audiovisual policy* alignment of legislation is largely complete.

In the *environment* sector, further progress has been made in relation to both alignment and implementation of environmental legislation. Estonia needs to continue these efforts and strengthen administrative capacity, particularly at local level. Also, enforcement of environmental legislation needs to be improved.

Estonia has made further progress in *justice and home affairs* including the adoption of the new Penal Code. Work needs to be continued to ensure implementation of legislation, to improve internal coordination and to extend cooperation with external organisations. Particular attention should be paid to strengthening capacity to fight organised crime including drug trafficking.

In *taxation*, progress has been made in aligning VAT and excise duty levels. This needs to be continued. In the field of the *customs union*, Estonia has introduced a new Customs Code. However, there is still a need to align and effectively implement tariff and tariff-related measures. Substantial efforts are still required to develop the administrative and operational capacity to implement the *acquis*. Estonia must ensure interconnectivity of both its tax and customs IT systems with those of the EC.

In *external relations*, Estonia has made good progress but needs to further align its legislation. In *common foreign and security policy*, Estonia has continued to align its foreign policy with that of the EU and has participated constructively in the framework of the CFSP.

In *financial control* further progress has been made in implementing internal financial controls which now has to be completed. There is also a need to introduce legislation on external financial control.

Looking across all sectors, it is important to reiterate Estonia's progress in terms of the development of its *administrative capacity*. Estonia has continued to take steps to improve implementation and effectively enforce the *acquis* which should be recognised as often being more difficult, more expensive and time consuming than the transposition of legislation. As highlighted above, positive steps taken include the establishment of the unified financial supervisory authority, accreditation of the SAPARD agency, reorganisation of the fisheries administration, merger of business support foundations and the establishment of financial control departments in ministries. Specific areas to which further attention should be paid include reorganisation of the market surveillance system and reinforcing the fight against piracy and counterfeit goods, in preparations for the Common Agricultural Policy and in raising the quality of food. There is also a need for investment in compliance and enforcement in the environment sector, preparing for EC structural funds, improving

coordination between law enforcement bodies, and in developing sufficient operational capacity to implement the customs *acquis*. Further efforts are also required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

Estonia has continued to address aspects of all the short-term 1999 Accession Partnership priorities. Estonia is now tackling many aspects of the medium term priorities including those priorities in the internal market, agriculture, fisheries, transport, employment and social affairs, environment and justice and home affairs.

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 and protection of minorities. Over the past year, further efforts have been made in this direction. Hungary continues to fulfil the Copenhagen political criteria.

In the area of public administration reform, positive steps were taken with the introduction of a new legal framework increasing accountability and efficiency of the administration. In addition, better salaries and career possibilities have made the civil service more attractive. Efforts also continued in the area of training, which has become an important element of the career structure.

Within the judiciary, the overall efficiency of Courts further improved after the introduction of additional measures in the area of institution building, notably the modernisation of IT systems, procedures, continued training and new staff. However, the continued overloading of the Supreme Court reduces its ability to provide guidance to lower courts and to unify the Courts' practice. The scarce budgetary resources make it difficult to implement the remaining elements of the judicial reform.

The fight against corruption remained high on the political agenda and new legislation on asset declaration and more severe punishment was adopted to address the issue. Corruption however remains a problem, and the new measures would need to be implemented quickly to make the fight more effective.

As regards human rights and freedoms, progress can be reported with regard to asylum, where the situation considerably improved due to faster and better procedures and more appropriate reception facilities. However, there is a need to address police behaviour, notably with regard to reported cases of ill-treatment. In the area of public service media, a solution needs to be found regarding the composition of the Supervisory Boards of Trustees.

New policy instruments and measures were adopted for the Roma minority. This process was accompanied by a significant increase of budgetary means for the further implementation of the medium-term action programme, already adopted by the Government in 1999. Support measures in 2001 mainly focused on the areas of education, employment, social policy, legal protection and culture. In this context, it will be important to enhance efforts to fight against widespread discrimination and to

fully implement and enforce the legislation already in place. The Roma minority should also be given the possibility to participate more actively in public life.

Hungary had implemented the short- and medium-term priorities of the 1999 Accession Partnership priorities which related to the continued implementation of the medium-term action programme for the Roma and the increase of budgetary means for this purpose, as well as the further reform of public administration and of the judiciary.

Hungary is a functioning market economy. Provided that it fully maintains and implements its reform programme in a consistent manner, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

The macroeconomic situation continues to be sound, with high GDP growth underpinned by a rising investment share, further declining unemployment and favourable current account development. Railway restructuring continued through a major bailout and debt restructuring. It has adopted a more appropriate monetary and exchange rate framework, which is contributing to lower inflation.

However, fiscal policy has become expansionary in 2001. Together with recent non-transparent fiscal practices, the uncertainty over the further reform of the pension system and the delays in the reform of the health care system have raised some concern about the continuation of consolidation and the medium-term sustainability of public finances. The authorities will need to maintain fiscal discipline to ensure that fiscal policy supports the new monetary policy framework and the external balance. This would contribute to lower inflation. The health care reform should be undertaken swiftly.

Hungary continued to make progress in aligning and implementing the *acquis* in many areas. In the reporting period, the country has moved steadily towards achieving a degree of administrative capacity needed to satisfactorily implement the *acquis*.

Continued good progress could be noted concerning the *internal market*. In this area, the major part of the *acquis* has been gradually adopted, and basic administrative structures are in place. As regards the free movement of goods, the alignment process has continued in respect of harmonised and “new approach” product legislation, and Hungary has been able to apply for full membership in the European standard bodies CEN and CENELEC. Work should be continued to ensure a coherent and comprehensive market surveillance system. With regard to public procurement, efforts will be needed to achieve full alignment and to ensure transparency and enforcement of the current rules at all levels of government and in all sectors, in particular in motorway construction. In the field of services, banking and insurance legislation has largely been aligned, and the supervisory authority appears to be working satisfactorily. Capital movements were almost fully liberalised. The adoption of an important new law on the fight against money laundering, which aims at, *inter alia*, phasing out anonymous savings books in order to meet the recommendations of the Financial Action Task Force (FATF), is pending at Parliament. In the field of *company law*, the Hungarian legislation with regard to industrial and intellectual property rights is already largely in line with the *acquis*; Hungary has a relatively good enforcement record. In *competition policy*, substantial and procedural rules for state aid control were further aligned with the *acquis*. Further efforts are needed to align state aid

schemes, in particular the fiscal aid schemes. Both anti-trust and state aid enforcement bodies are working satisfactorily.

Alignment of VAT and excise duty levels continued in the area of *taxation*. However, appropriate IT systems allowing for the exchange of electronic data with the Community and the Member States have still to be developed. In the area of *customs*, in particular, the administrative and operational capacity was strengthened through training and modernisation of the equipment. Hungary still needs to work on the compatibility of its IT system with the EC customs computerised systems in order to ensure interconnectivity by the time of accession. In the area of *economic and monetary union*, the independence of the National Bank was consolidated with the adoption of a new law. With regard to *industrial policy* and *small and medium-sized enterprises*, Hungary made further progress by the adoption and implementation of the Széchenyi Plan. The issue of the restructuring of the Hungarian steel industry has progressed in the reporting period.

Significant progress was also made in the area of *environment*, notably through the adoption of legislation on Environmental Impact Assessment, on water, waste, industrial pollution control and risk management, on chemicals and on radiation protection. The administrative capacity in this sector was also improved, but needs further strengthening, in particular as regards the clear distribution of tasks between the ministries involved.

As to *agriculture*, progress in the reporting period was limited to the food safety and veterinary sectors, while the inspection arrangements in the veterinary and phytosanitary areas still need to be updated. Further efforts are needed to establish in time the necessary procedures and structures for Hungary's participation in the Common Agricultural Policy. Legal alignment needs to be sustained in the area of *transport*, and efforts are needed to carry out the restructuring of the rail sector that is indispensable to prepare for the implementation of the market access *acquis*. In addition, appropriate institutions will have to be set up in order to enforce the *acquis* adequately. In the *energy* sector, only limited progress was made. The necessary legal framework for the participation of Hungary in the internal energy market still needs to be created. No progress could be noted with regard to the *audio-visual* sector.

Considerable progress was made in the area of *social policy and employment*, notably through the adoption of the revised Labour Law. As to social dialogue, confidence-building measures are needed to enhance real dialogue.

In relation to *regional policy*, Hungary has been making good progress in preparing for programming Structural Funds and in defining the implementation structures, but administrative capacity as well as financial and budgetary procedures need to be further strengthened. Effective inter-ministerial co-ordination mechanisms should also be set up, and an even wider application of the principle of partnership should be ensured.

The progress made in legal terms in the *telecommunications* sector needs to be followed up by appropriate enforcement measures.

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. As regards external borders, a strategy on the integrated development of border crossing points was adopted. The Schengen Action Plan addresses the main issues of the *acquis*.

In the area of *common foreign and security policy*, some of the provisions laid down in the Law on Hungarian minorities living in neighbouring countries apparently conflict with the prevailing European standard of minority protection. Hungary should therefore find an agreement with its neighbouring countries with a view to complying with the recent findings of the Report of the 'Venice Commission'. Also, as foreseen in its Article 27 (2), the Law will need to be aligned with the Community *acquis* at the latest upon accession, since it is currently not in accordance with the principle of non-discrimination laid down in the Treaty.

As to *financial control*, some progress has been made both as regards external audit and public internal financial control. However, the administrative capacity in general and the functional independence of the auditors in the internal audit sector should be further strengthened. As to *financial and budgetary provisions*, further efforts continue to be needed in order to meet Community requirements with regard to co-financing and multi-annual programming.

Hungary made further progress in building up its administrative capacity to apply the *acquis* in most areas. However, with regard to the administrative and judicial capacity, further efforts will have to be made in particular in areas such as state aid control, audio-visual, market surveillance, transport and agriculture. Further efforts are also required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

Hungary has continued to address its short-term Accession Partnership priorities with the exception of certain items in the field of agriculture, audio-visual policy, free movement of goods and competition policy. In addition, Hungary has implemented a number of medium-term priorities in the areas of social policy and employment, environment and Justice and Home Affairs (on asylum matters and visa policy).

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. Over the past year, further efforts have been made in this direction. Latvia continues to fulfil the Copenhagen political criteria.

During the last year, the government remained committed to reforming the Public Administration and the judiciary, as well as to fighting against corruption. Strategic documents on Public Administration Reform and Corruption Prevention were adopted, as was framework legislation on public agencies, and practical measures were pursued in all three areas. It will now be necessary to maintain the momentum of Public Administration Reform with the completion of the legal framework and the development of a stable civil service, including through the introduction of pay reform.

In parallel, the reform of the judicial system must be carried on, with particular attention to the legal framework, speeding up and enforcing court decisions, and addressing the issue of pre-trial detention. Measures to combat corruption, which remains a source of concern, need to continue with a view to achieving concrete results on a broad scale.

Further important steps were taken to promote the integration of non-citizens into Latvian society, notably measures to facilitate the naturalisation procedure and the adoption of both a more elaborate Society Integration Programme and the legal basis for the future Social Integration Foundation. The ongoing efforts to support the integration of non-citizens need to be sustained through the implementation of the comprehensive Society Integration Programme in all its aspects, including activities to encourage naturalisation and the expansion of Latvian language training. Latvia should ensure that the implementation of the Language Law respects the principles of justified public interest and proportionality, Latvia's international obligations and the Europe Agreement.

Latvia has achieved progress towards meeting the short-term priorities of the Accession Partnership in the areas of the Language Law and language training, as well as administrative and judicial capacity. Some progress has also been made towards meeting the medium-term priorities in the areas of further integrating non-citizens, developing the civil service and improving the capacity of the public administration; however, these efforts need to continue.

Latvia is a functioning market economy. Provided that it makes further substantial efforts in maintaining the pace of, and completing, its structural reforms, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Latvia has preserved macroeconomic stability. Further progress has been made on structural reform, the last steps of the pension reform, a new framework for financial supervision and a new regulatory authority for public utilities have been introduced. The legislative framework for a market economy is, for the most part, in place, and market entry and exit mechanisms continue function in a satisfactory manner. The financial sector, although small, is gradually consolidating.

However, the authorities must continue a policy of fiscal discipline, within a medium term fiscal framework, in order to keep the budget deficit and the current account deficit sustainable over the medium term. Privatisation of the remaining large enterprises has advanced more slowly than anticipated and should be completed. The privatisation of land and the development of the land market should be advanced. Measures to improve the business environment have been introduced, and this process should continue, in particular through the removal of the remaining regulatory and administrative constraints to enterprise development. Unemployment remains at high levels and labour market flexibility should be enhanced.

Latvia has kept up a steady pace in aligning its legislation with the *acquis* in most areas. The need to strengthen the administrative capacity to manage and enforce the *acquis* has been recognised, even though this process continues to represent considerable challenges. Efforts during the last year included both re-organisation of existing structures and the creation of several specialised bodies with a view to complying with the various requirements of the *acquis*.

Preparations for the Internal Market advanced further. As concerns *movement of goods*, the transposition of European standards accelerated, and the institutions for accreditation and standardisation have been further strengthened. The new Market Surveillance Council became operational, but the reform of the market surveillance system needs to continue. Further legislation was also adopted in the area of public procurement, but the Public Procurement Surveillance Bureau has not yet been created. In the area of *free movement of persons*, framework legislation on mutual recognition of professional qualifications was adopted. In the area of *freedom to provide services*, two new bodies, the Financial and Capital Market Commission and the State Data Inspectorate started to function, even though further improvements of the legislative basis of the latter will be necessary. Further legislation was also adopted concerning the *movement of capital*, in particular on security services and cross-border credit transfers. In the area of *company law*, the enforcement of legislation remains a matter of concern. Delays in the entry into force of the Commercial Code and the effective protection of intellectual and industrial property rights constitute a serious challenge. The adoption of legislation related to state aid represents an important step towards meeting requirements of *competition* policy; Latvia's enforcement record in this area has also developed but efforts to ensure the full implementation of anti-trust and state aids rules should continue. In the area of *customs*, progress was made in alignment and in upgrading the administrative structures, which were also strengthened for *taxation*. For both areas, the development of IT systems so as to allow for the exchange of electronic data with the Community and its member states needs to be carried forward.

Encouraging efforts were undertaken in the area of *agriculture*, in particular concerning veterinary and phytosanitary matters, as well as food safety. Achievements include the adoption of amendments to the Law on Agriculture, the adoption of an implementation plan for common market organisations, the entry into force of a new Law on Veterinary Medicine and the restructuring and strengthening of the administration. Important challenges still lie ahead, both in completing alignment and in introducing and upgrading the necessary structures and mechanisms, including the paying agency, the integrated administration and control system, common market organisations and inspection arrangements.

Alignment also continued for road and railways *transport*, and the ongoing efforts to improve maritime safety have shown some first results. A significant step in transposing the social policy and employment *acquis* was reached with the adoption of the Labour Code and the Law on Labour Protection. To ensure the proper implementation of legislation, the administrative capacity should be reinforced, in particular concerning occupational health and safety, including the further strengthening of the State Labour Inspectorate. Further alignment was achieved in the areas of *energy* and *environment*. For energy, this needs to continue with special emphasis on the electricity and gas directives, as well as oil stocks; for the area of environment, alignment needs to be completed as concerns access to environmental

information, waste management and chemicals. Several specialised bodies were set up, including the Energy Inspectorate, the Radiation Safety Centre and the Latvian Environment Agency, and, but further efforts to upgrade the administrative structures are needed.

The transposition of most of the requirements for *telecommunications* is still pending. Considerable progress was made in aligning to the *culture and audiovisual acquis*. For *justice and home affairs*, progress could be noted on data protection, visas and border control, including also the adoption of a Schengen Action Plan. These efforts need to be maintained, and alignment in the areas of migration and asylum completed. Upgrading the capacity and infrastructure for border management also remains a priority. The fight against organised crime, drug trafficking, money laundering, fraud and corruption also needs to be reinforced.

As to *regional policy and the co-ordination of structural instruments*, the basic legislation remains to be adopted. Progress is also needed on programming, monitoring and evaluation capacities. The decision to entrust the Ministry of Finance with the future responsibility for Structural Funds represents an important step. Although further legislation on Public Internal *Financial Control* and external audit remains to be adopted, some advancements in this area could be noted, in particular as concerns the strengthening of the administrative structures; this process needs to continue.

Preparing its administration for EU 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 and bodies have been re-structured or created. This process needs to continue, including the setting up of further new bodies and mechanisms, for example a Public Procurement Surveillance Bureau, agricultural market intervention mechanisms and the Guarantee Fund for the Protection of Employees in the Event of Insolvency of Their Employer. Furthermore, it will be vital to provide all institutions with sufficient resources to ensure the reliable implementation and enforcement of the *acquis*, for example, the new Public Services Regulation Commission, which will have important *acquis*-related regulatory responsibilities in the areas of railways, energy and telecommunications. Continued efforts will also be necessary to ensure sound, efficient and controllable management of EC funds.

Latvia has made progress on all the short-term Accession Partnership priorities. Achievements included for example the areas of free movement of goods, social policy and employment as well as environment, where the process is close to completion. All the medium-term priorities have been addressed, and progress is well underway for most of them. Major steps forward could be noted for the free movement of persons, audiovisual legislation and customs. However, work towards all priorities should continue, with particular attention on those areas where important legislation still needs to be adopted, such as energy, telecommunications, and economic and social cohesion, or the administrative structures strengthened, such as agriculture, fisheries and the control of EC funds.

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. Over the past year, further efforts have been made in this direction. Lithuania continues to fulfil the political criteria.

Lithuania has made some progress in reforming the public administration and the judiciary, where the administrative court system has been re-organised. The legal system has improved with the entry into force of the new Civil Code. The capacity to fight corruption has been strengthened. The active role of the ombudsman in the field of equal opportunities and, more recently, children's right is noteworthy.

Sustained efforts are required to further advance the process of reform of the public administration, covering all different sectors of the administration, while creating the conditions for the necessary continuity and stability of the administration. Adequate financial resources should be secured, inter-departmental co-ordination must be further reinforced and training should become more systematic. As regards the judicial system, the new Law on Courts urgently needs to be adopted. Adequate budgetary resources and the managerial competencies which are necessary for the administration of the court system need to be secured. The adoption of the Code of Criminal Procedure must be speeded up in order to allow for the implementation of the new Criminal Code.

In the field of the fight against corruption, the efforts made over the past year should be sustained and reinforced, through the adoption of the National Anti-Corruption Strategy and its Implementation Programme by the Parliament, and with the adoption of a new Law on Corruption Prevention. As regards the continued concern over administrative corruption, further progress in ensuring the transparent application of administrative procedures is required, and the co-ordination among the agencies combating corruption should be further strengthened.

Lithuania has made progress towards meeting the accession priorities related to the political criteria. It has made limited progress in implementing the public administration law and the civil service law. The Government has approved the National Anti-Corruption Strategy which now needs to be adopted by the Parliament and implemented. A training programme for judges, covering various aspects of EC law and *acquis* enforcement, has started and needs to be continued.

Lithuania is a functioning market economy. Provided that it makes further substantial efforts to continue with the vigorous implementation of its structural reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Lithuania has preserved macroeconomic stability, improved the fiscal and external imbalances and reduced state interference. The privatisation of banking, other sectors and land is nearing completion. New bankruptcy and enterprise restructuring laws finally came into force.

However, unemployment remains high and the structural problems on the labour markets will have to be addressed. While important laws to restructure and liberalise the energy market were adopted, further acts need to be adopted and effective implementation needs to be ensured. Financial intermediation continues to be low and inefficient. Domestic and foreign investment remains at relatively low levels. The authorities need to properly implement the new legal framework for business, specifically the bankruptcy laws. The planned pension reform must be advanced and implemented. Fiscal discipline must continue and the sustainability of public finances in the medium-term must be ensured, also to keep the current account deficit under control in the context of currency board.

Lithuania has made significant progress in terms of transposition and implementation in most areas of the *acquis*. While the degree of progress varies, the gaps are being reduced and in some areas Lithuania has achieved a high level of alignment. The areas where considerable efforts are still required are notably those related to the use of EC funds. Overall, the administrative capacity has improved, although in some areas where administrative structures have been changed over the past year it has been challenging to re-build the necessary capacity.

In the field of the *internal market*, Lithuania has continued to make progress as regards the *free movement of goods* in terms of transposition of the *acquis* and strengthening of the institutions (especially for standardisation and accreditation). While alignment on public procurement remains to be completed, there has been progress in implementing the existing legislation. The administrative capacity of the Public Procurement Office has improved, although it needs further strengthening. As regards *free movement of persons*, the legislation on citizen's rights is largely in line with the *acquis* and the progress made concerning the mutual recognition of professional qualifications needs to be continued. In the area of *freedom to provide services* advancement of legislative alignment has been accompanied by concerted efforts to strengthen administrative capacity, particularly in the financial services sector. Further progress has taken place in the area of *free movement of capital*, where Lithuania had already achieved a high degree of liberalisation. In the area of *competition policy*, the quality of the alignment achieved is reflected in an enforcement record of the Lithuanian Competition Council which has so far been reasonably successful. As regards *company law*, whereas good progress has been made notably in terms of legislative alignment on the protection of intellectual and industrial property rights, the effective enforcement of this legislation needs to be considerably improved.

In the area of *economic and monetary Union*, Lithuania, through the adoption of the new law on the Central Bank, has achieved a high level of alignment. As regards *taxation*, Lithuania has made progress in the alignment with the *acquis* on indirect taxation and has improved the administrative capacity. Further modernisation of the IT systems of the Tax Inspectorate is needed to allow for the interconnection with the EC systems. Good progress on alignment has taken place in the area of *Customs union* but this needs to be accompanied by a considerable strengthening of administrative and operational capacity, notably as regards the development of IT systems to allow for the interconnection with the EC customs systems.

As regards *agriculture*, Lithuania has continued to make progress in reforming its structures in the agricultural field. However important measures remain to be taken in particular regarding the further strengthening of the land parcel identification system,

the enforcement and practical application of the management mechanisms of the Common Agricultural Policy and the further preparations for the paying agency. Lithuania has continued to make progress as regards food safety and the veterinary and phyto-sanitary sectors but still needs to strengthen further the implementation structures. Limited progress has taken place as regards upgrading inspection arrangements at the external border. As regards *fisheries*, progress has been made, in particular in terms of administrative capacity, but significant further work is needed in terms of preparation for the structural actions and market policy.

In the area of *transport*, Lithuania has made good progress notably as regards road transport safety, railways restructuring and civil aviation, including strengthening of the relevant administrative capacity. However, there are still areas where considerable further progress is required, notably in terms of inspection capacities. As regards the *energy* sector, Lithuania has achieved a reasonable level of alignment, but needs to sustain its efforts, notably in the area of the Internal Energy Market. Further work is required also in the field of nuclear energy. Lithuania must confirm and implement its closure commitments and ensure a high level of nuclear safety.

In the field of *social policy*, Lithuania has made steady progress in transposition and implementation of the *acquis*. However, the new Labour Code and Law on Public Health still need to be adopted. Implementation and enforcement need to be given further attention. The social dialogue needs to be reinforced.

Lithuania has made further progress in the field of *environment*, where most of the framework legislation is in place. Implementation remains a major challenge, in particular in areas which require heavy investments or investments by private enterprises.

In the area of *telecommunications*, some progress has taken place in terms of alignment of the regulatory framework. The regulatory authority has become operational but needs to be strengthened.

In the field of *Justice and Home Affairs*, improvements have been made in strengthening the external border and addressing shortcomings in inter-agency co-ordination. These efforts need to be sustained. Lithuania has adopted a Schengen Action Plan.

In the field of *regional policy and co-ordination of structural instruments*, important decisions concerning the institutional structure for the management of Structural Funds have been recently taken. These decisions need to be implemented urgently through the strengthening of the administrative capacity, the development of effective inter-ministerial co-ordination and establishment of the framework for programming and implementing Community support while respecting the principle of partnership.

While some progress has taken place in the area of *financial control*, Lithuania needs urgently to strengthen considerably its capacity to implement and enforce the legislation on public internal financial control. Lithuania has made some limited progress in the area of *financial and budgetary provisions*, where the implementation of the 2000 Law on budget needs to be followed by further considerable efforts.

While continuing to pursue a prudent budgetary policy, Lithuania has made progress as regards the building of the *administrative capacity* which is necessary to implement and enforce the *acquis*. However, this capacity is still fragile and can easily be reduced if organisational structures are modified without careful attention. Sustained efforts are required to keep the administrative capacity acquired and to further develop it.

Overall, Lithuania has made satisfactory progress in meeting the short-term and, to a lesser extent, the medium term priorities of the *Accession Partnership*. In particular Lithuania has largely met several short-term priorities concerning economic criteria, internal market, energy and environment. Some short-term priorities, notably in the field of agriculture, remain to be addressed in full. Lithuania has partially met most of the medium-term priorities, but further efforts remain to be made in particular as regards the management and control of EC funds.

Malta

Malta continues to fulfil the Copenhagen political criteria. Further efforts have been made to prepare the administration for operation within the EU, and the authorities' record on democratic and human rights remains generally good.

There has been further progress as regards the functioning of the justice system with the reduction of the backlog of judiciary cases and preliminary steps have been taken to implement the Refugees Act.

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

Macroeconomic developments have been favourable in terms of GDP growth, unemployment, inflation and a significant reduction of the government deficit. The government's medium-term fiscal programme generated a further decrease of the public deficit. Progress has been made in developing restructuring and privatisation programmes and initiatives for entrepreneurship.

However, despite the decreasing trend, the fiscal deficit remains too high, contributing further to a very large current account deficit. Although the current account deficit had a strong one-off component, it will need to be closely monitored. The authorities need to put public finances in a sustainable medium-term path. The reform of the social security system needs to be considered in this perspective. The implementation of the restructuring and privatisation of public utilities and loss-making public enterprises remains slow. Further efforts to limit the influence of the state in the economy are needed. A faster implementation of structural reforms and further liberalisation is crucial to support the sustainability of external balances and external competitiveness in a more open environment.

Since the last Regular Report, Malta has continued to progress well in aligning its legislation with the *acquis* and strengthening its administrative capacity. However, progress has been uneven across the different fields.

Considerable further progress has been made in aligning with the *acquis* on *Free Movement of Goods*, especially as regards the framework for the New and Global Approach. Malta must pursue its efforts in the fields of standardisation, certification

and market surveillance and also align its public procurement legislation as regards the remedies system and bodies governed by public law. As regards *free movement of persons*, efforts should be pursued to further align Maltese legislation. Malta has continued to progress on *free movement of services and capital*, however further legislative alignment is needed in particular in the fields of banking and investment services, data protection as well as money laundering. In the area of company law Malta is close to full alignment. As regards *competition*, there has been some progress with the beginning of the enforcement of the State aid rules, but further efforts are needed to strengthen the administrative capacity in this area and to ensure that public undertakings are submitted to competition law in line with the *acquis*.

Malta has made substantial progress in the area of *social policy*, mainly as regards labour legislation and occupational health and safety. However efforts are needed in the area of equal opportunities and to further strengthen the implementation capacity on occupational health and safety.

In the field of *taxation*, considerable progress has been achieved as regards excise tax and some progress with respect to VAT, although progress is needed as concerns the scope of exempt transactions and the code of conduct on direct taxation. Despite some progress in the area of *customs*, continued efforts are needed to align Maltese customs legislation with the *acquis* in this domain, and to develop the administrative capacity to implement it.

Progress has continued in the areas of *telecommunications* and *culture and audiovisual policy*. Malta has also created a suitable framework for the development of investments and the restructuring of *SMEs*.

In the *statistics* area, the Central Office of Statistics of Malta has continued to progress and is pursuing its efforts to fully align its methodologies with EC standards. In the field of *financial control*, the reengineering of the internal audit system within the Maltese Government has been completed and the National Audit Office has continued to be strengthened, providing Malta with an adequate internal and external audit institutional framework. Malta should further consolidate this progress. Substantial progress has been achieved in the area of *regional policy*, where the structures needed to implement the structural and cohesion funds have been set up and strengthened.

In the field of *justice and home affairs*, little further legislative progress has been achieved. Progress has been made in preparing the Maltese administration to the implementation of the Asylum legislation and the control of borders in accordance with the Schengen requirements, in particular with the preparation of a Schengen Action Plan. Efforts are still needed with respect to data protection, immigration, visa policy and judiciary co-operation.

In the area of *agriculture*, progress has been limited. Malta still has to adopt most of the extensive agriculture *acquis* and to prepare its agriculture for the Common Agricultural Policy. As regards the *environment*, the adoption of the Environment Protection Act together with subsidiary legislation represents a significant progress but Malta is still far from full alignment and the capacity to enforce the legislation remains very weak. An overall strategy for the adoption and implementation of the environmental *acquis* must also be developed.

Over the past year, efforts to strengthen Malta's capacity to implement the *acquis* have started in the areas of state aids, *regional policy* and *asylum*. Capacity building efforts have been pursued in many areas, in particular in the areas of *free movement of goods*, *market surveillance*, *transport*, *taxation*, *social policy*, *customs*, *statistics*, *border control* and *financial control*. It is important to continue to reinforce the administrative capacity in these areas, in particular as regards the maritime safety *acquis*. In both *customs* and *taxation*, particular attention must be paid to the development of IT systems needed for the exchange of computerised data with the EC. There is a need to further strengthen the administrative capacity in the field of border management. Malta should also step up its efforts to enforce the intellectual property rights.

The capacity to enforce the *acquis* remains a source of particular concern in the area of the *environment* and it should be strengthened as a matter of priority. Malta should also significantly strengthen its administrative capacity in the *agriculture* field, in particular it has to upgrade inspection arrangements in the veterinary and phytosanitary fields.

Most of the Accession Partnership short-term and medium-term priorities have been partially fulfilled. Progress has been particularly significant in the areas of free movement of goods and social policy and also in the areas of taxation and telecommunication. Further efforts are required in particular with regard to agriculture and the environment, and in the area of free movement of services.

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. Over the past year, further efforts have been made in this direction. Poland continues to fulfil the Copenhagen political criteria.

In the area of public administration progress in the implementation of the 1999 Civil Service Law continues. Further efforts are required to speed up the pace of implementation and ensure that an independent, well trained and motivated civil service is in place by the time of accession.

Poland has continued to make progress in reforming the judiciary and in reducing the most pressing bottlenecks. The pace of reform needs to be accelerated and issues relating to judicial immunity further addressed.

Additional steps have been taken, including the adoption of much needed legislation, in the fight against corruption, which remains a source of serious concern. The focus must now be on ensuring a coherent approach to corruption, implementing the legislation and above all on developing an administrative and business culture which can resist corruption.

There has been some progress in establishing the legal framework for equal opportunities and further work needs to be undertaken in this regard.

A new element which has come to light has been the abuse of custody, which has been reported in certain cases. This needs to be addressed and the first steps have already been taken in this respect.

The reinforcement of administrative and judicial capacity, improving the operation of the judiciary and its training in EC law were Accession Partnership priorities. Work is underway but further efforts are needed.

Poland is a functioning market economy. Provided that it continues and intensifies its present reform efforts in a consistent policy environment, it should be able to cope with the competitive pressure and market forces within the Union, in the near term.

In the first part of the reporting period, it maintained adequate macroeconomic stability, and its growth performance was again solid, before growth experienced a significant slowdown starting in the second half of last year. Privatisation continued and there has been further restructuring in sensitive sectors such as the coal and power industries. The legal framework for business has been strengthened with the adoption of the new bankruptcy law and the new Commercial Code.

The sharp decline in growth reflects in large parts problems in the macroeconomic policy mix – the co-ordination of fiscal and monetary policy. Already high unemployment has risen further and the budget deficit is on a rising path. Fiscal adjustment must take place in order to contribute to a more suitable policy mix and not to endanger the medium-term sustainability of public finances. This would also help to reassure markets and boost business confidence. The authorities should speed up privatisation and restructuring in some key sectors, such as in some traditional industries or in agriculture. They should proceed with clear plans to remove obstacles to market exit and indirect state aid in the form of tax or social security arrears, which hinder the functioning of market forces. The implementation of bankruptcy procedures must improve. Further measures need to be taken to improve Poland's infrastructure and the response of the labour markets to changing economic conditions.

The reporting period has seen intensive work on the adoption of legislation. In some areas there have been notable breakthroughs with regard to the adoption of primary legislation. In others, there has been a steady consolidation of the achievements of 2000 through the adoption of the necessary secondary legislation on the basis of the framework laws adopted the previous year. This process of consolidation and putting flesh on the legislative bones is vital in terms of the future ability to implement the *acquis* and one where efforts will have to be further intensified. The need for further effort applies even more to the strengthening of the administrative capacity to implement the *acquis*. There have been further developments in this regard, but the divergence between progress in this area and in adopting legislation remains great.

With regard to the *internal market*, efforts in a number of areas have, following the earlier adoption of the framework legislation, focused on the secondary legislation necessary to implement the *acquis* in these areas, in particular standards and certification and state aid. Both of these are areas in which Poland's existing obligations necessitate implementation prior to the date of accession, and where there has been limited progress. In the case of standards and certification considerable efforts are required to develop the necessary administrative capacity. This is not the case in competition where the capacity exists but where implementation has been

limited. There has been progress in the elements of food safety which relate to the internal market through the adoption of the framework law but substantial efforts remain in adopting secondary legislation and developing the administrative capacity. The industrial property law has been adopted although short term difficulties remain with regard to data exclusivity arising out of the new pharmaceutical law. While there has been some improvement in administrative structures, efforts need to be intensified with an emphasis on enforcement.

Poland's track record in the free movement of services and capital continues to be good and further work has been undertaken to strengthen the administrative capacity in these domains. There has been considerable legislative progress in the area of public procurement and some progress in terms of the free movement of persons. Further efforts will be necessary to ensure the smooth integration of Poland into the internal market.

In the telecommunications area implementation of the existing legislation has been gradual. There has been limited progress in further aligning rates of indirect taxation and 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.

With regard to *EMU*, there have been no legislative developments towards reinforcing the independence of the National Bank.

There has been some progress in *industrial policy*. Necessary steps have been taken to resolve outstanding issues in the steel sector but these will need to be followed through with vigour.

In the *agriculture* sector, a coherent strategy for the sector is still lacking. The substantial transformation which is needed, in terms of policy, legislation and structures has not yet taken place in either the agriculture or *fisheries* sectors. In both sectors there has been some progress with regard to primary legislation, notably in the case of veterinary legislation for agriculture. The administrative capacity remains extremely weak for fisheries and weaknesses have become apparent in agriculture in particular with regard to the Integrated Administration and Control System (IACS) and border inspection, both in the veterinary and phyto-sanitary fields.

In the *environment* sector significant progress has been made in terms of primary legislation. The energy and in particular the transport sectors have seen some progress. In all three sectors considerable further work is also required to strengthen the administrative capacity. This is particularly the case for the environment where regional as well as national structures need to be reinforced.

There have been few developments with regard to regional policy. In the social field, progress has focused on public health legislation, while enforcement remains a matter of concern most notably concerning occupational health and safety. Additional efforts are required in this respect, in particular to strengthen the Labour Inspectorates. Progress continues in justice and home affairs, especially with regard to the border guards and border management, where the Customs business strategy previously adopted is being implemented. Efforts have been made to improve the situation with regard to law enforcement bodies dealing with the fight against organised crime, in particular the police services. These need to be intensified. Further efforts are

required in the customs area to align with the *acquis* and to ensure the establishment of an effective implementation capacity. Significant legislative progress has been noted in terms of internal financial control, the challenge will now be to put in place the necessary control mechanisms.

Poland has made further progress in aligning its legislation notably through secondary legislation. As has previously been noted this effort needs to be matched, in order to adapt and strengthen the structures required with a view to accession. In a number of sectors the level of administrative capacity lags behind. Further efforts are also required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

This disparity between progress in the adoption of legislation and the reinforcement of administrative capacity is reflected in the extent to which the short-term priorities of the accession partnership have been addressed. There has been further progress in meeting the *acquis* based elements. Continued efforts are needed to set up or strengthen administrative capacities across the board notably on certification, agriculture, fisheries and regional policy, the social field, customs and justice and home affairs.

Poland has started to make progress in meeting all the medium-term priorities. Progress has been varied, with the most obvious developments relating to the legislative elements of the priorities. This will provide the basis for the development of the necessary administrative capacity to ensure implementation. Efforts commenced in this regard will need to be intensified.

Romania

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

The efficiency of the legislature has improved considerably as has the overall functioning of government. The reform of judicial procedures has continued and effective implementation of new legislation on public procurement should play an important role in the fight against corruption – although corruption remains a serious problem that is largely unresolved. Other particular concerns are the lack of progress in carrying out a strategic reform of the public administration and the need to further guarantee the independence of the judiciary.

Significant progress has been made in the field of human rights. Reform of the childcare system is well under way; homosexuality has been decriminalised; and important new legislation has been passed regarding the restitution of property and the treatment of asylum seekers and refugees. The introduction of probation represents an important reform of the penal system and several initiatives have been taken to address trafficking of human beings. Future reforms should seek to modernise the Penal Code and increase the public accountability of police officers as well as ensure the

proportionality of their actions. Efforts to improve the actual living conditions in childcare institutions should continue.

New legislation extending the use of minority languages was approved, and a National Strategy for Improving the Condition of Roma adopted. Efforts now need to focus on the implementation of the strategy, with the aim of effectively combating widespread discrimination, and improving living conditions.

Romania has addressed the short-term Accession Partnership priorities related to the political criteria by improving the conditions of institutionalised children, making progress with the reform of childcare policy, developing a national strategy for Roma, and taking measures to provide support to minority programmes. As regards medium-term priorities, progress has been made towards meeting the medium-term priority related to childcare, and initiatives have been taken to increase the Roma's access to education. However, important actions are still needed in other areas: the Roma strategy has not yet been implemented; anti-discrimination legislation has been adopted but it is not yet operational; and the demilitarisation of the police has not yet started.

Romania has made progress towards establishing a functioning market economy and although it would not, in the medium term, be able to cope with competitive pressure and market forces within the Union, it has taken measures that would allow to develop its future capacity, provided that it keeps to the engaged economic reform path.

Romania has made progress towards macroeconomic stabilisation: growth has resumed and exports have increased. The government is acutely aware of the need to implement the programme agreed with the IMF and the Pre-accession Economic Programme. Structural reforms have been re-launched, most notably in the area of privatisation and energy price adjustments. The recent privatisations demonstrate a new commitment towards the establishment of a functioning market economy.

However, there are still serious economic imbalances with high inflation and a widening current account deficit, in a difficult social environment. The still fragile macroeconomic environment, the uncertain legal framework and the poor administrative capacity hinder the development of the private sector. Large parts of the enterprise sector have yet to start restructuring or are still in the early stages of the process. Romania's reform agenda remains considerable. The authorities should give priority to securing macroeconomic stability by fighting inflation and halting the deterioration of the external account. The full implementation of the programme agreed with the IMF, focusing on reversing the causes of inflation, would permit a gradual shifting of monetary and exchange rate policy towards inflation reduction. Enterprises' financial discipline should be established by halting the accumulation of inter-enterprise arrears and the provision of state support to inefficient ventures. The removal of the burden that these practices put on fiscal policy would allow for a better co-ordination between fiscal and monetary policy. A further priority is to accompany enterprise restructuring and privatisation with the establishment of sound legal and institutional foundations of the functioning market economy.

Romania has continued to make progress with the adoption of the *acquis*. However, advances in legal transposition have not always been matched by improvements in administrative capacity.

Romania's progress with *internal market legislation* has been mixed. Other than the adoption of new legislation on public procurement, little progress has been made with the *free movement of goods* and the framework legislation for the New and Global Approach has still not been adopted. The administrative infrastructure for standardisation, certification and market surveillance should be reinforced. Only limited progress has been made in aligning with the *acquis on free movement of persons*, and while progress has been made with insurance and banking supervision there has been no progress with transposing the *acquis* on financial securities markets. Legislation on the protection of personal data remains inadequate. New Romanian legislation on money laundering is a welcome development but a comprehensive system of exchange controls and other restrictions on capital movements still exists. The supervision of financial services should also be improved. Further progress was made in aligning with the *company law* and *competition policy acquis* – sectors where Romania has already achieved a high degree of transposition. This said, the supervision of intellectual property rights should be further developed as should the capacity to enforce state aid and anti-trust rules.

In the field of *taxation*, Romania has made some progress particularly with regard to excise duties. However, further alignment is still needed in the area of VAT and much remains to be done to modernise the tax administration – including the development of electronic data exchanges with the Community and Member States. Romania's adoption of an *industrial strategy* document is a welcome development and while some important progress has been made in privatisation considerable further efforts are still needed. Good progress has been made in promoting the *SME sector* and a series of measures have been taken to improve the business environment.

While Romania has made progress in aligning with several aspects of the *agricultural acquis*, restructuring of the sector has barely begun. The overall administrative capacity of the Ministry of Agriculture remains weak and Romania still needs to develop the ability to implement the management mechanisms of the Common Agricultural Policy. Inspection arrangements in the veterinary and phytosanitary fields also need to be upgraded. The newly adopted fisheries law brings the Romanian legislative framework largely in line with the *acquis*. However, efforts are still needed to strengthen administrative structures.

Romania has continued to make good progress in harmonising its *transport* legislation. Policy related to the *energy sector* has been inconsistent and therefore only limited progress can be noted. While there has been limited progress in the *telecommunications sector* in terms of transposition, extensive preparatory work has been carried out that should enable future reforms. Romania has made advances in aligning itself with the *environmental acquis* but does not have the administrative capacity to effectively enforce the newly adopted legislation and insufficient financial resources are allocated to the sector. Romania has made progress in aligning with several aspects of the *consumer protection acquis* but attention will be required to ensure effective enforcement. Romania has only made limited progress in the *audio-visual* sector.

Social policy is a priority for the government, and while progress has been made further alignment with the *acquis* is necessary, as are improvements in administrative capacity (in particular in the area of occupational health and safety and in strengthening labour inspectorates). Some progress was made in the area of *regional*

policy during the reporting period - mainly in terms of improving institutional arrangements. However, the new structures remain fragile and considerable work is still necessary as regards programming, monitoring and evaluation and developing the capacity to manage and control public funds.

In the field of *justice and home affairs*, significant progress has been made in the fields of visa policy, border control and migration. However, there is still a need to adopt legislation in some important areas such as data protection and to further upgrade the capacity and infrastructure for border management.

Romania has increasingly resorted to *trade policies* that are incompatible with its international obligations and which represent a move away from the *acquis*. At the same time, the management of the OSCE Presidency demonstrated Romania's capacity to assume its responsibilities international leadership role in the field of foreign affairs. Romania has continued to make progress on harmonisation with the *customs acquis* although the operational capacity of the customs service should be improved and efforts should be intensified to develop systems that will allow the exchange of computerised data between the EC and Romania.

Despite some positive developments, the Romanian authorities have not yet succeeded in elaborating a comprehensive policy framework for internal *financial control* over public funds, and further efforts are needed to strengthen administrative capacity in this area. Romania has made some progress in reforming national budgetary procedures but further efforts are required both in relation to the national budget and own resources.

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 funds. There has been no significant progress in developing administrative capacity although this issue is beginning to be addressed by the government.

With regard to meeting short-term Accession Partnership priorities, Romania has met the priorities related to *transport*. While progress has been made in the areas of *taxation, customs, and justice and home affairs* none of the priorities identified for these sectors have yet been fully met. Some, limited progress has been made in addressing the priorities related to the *internal market, agriculture, environment, employment and social affairs* and the *reinforcement of administrative and judicial capacity*. Romania has started to address some medium-term Accession Partnership priorities. In *transport* and *fisheries* Romania is close to meeting the medium-term priorities. However, no substantial progress has been made in the cases of *agriculture, environment, and employment*.

Slovakia

In its 1999 Regular Report, the Commission concluded that Slovakia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Slovakia continues to fulfil the Copenhagen political criteria.

Significant progress was achieved with regard to the structure and functioning of the administration. The legal framework for the decentralisation of public administration was adopted, and so was the civil service law. Due implementation of the legislation is now required to ensure that the public administration adequately fulfils the key role it has to play in a functioning democracy based on the rule of law and in support of the accession process.

Important steps were taken to strengthen the independence of the judiciary. In particular, the constitutional amendment abolished the four-year probationary period for judges and provided for setting up a Judicial Council. This amendment now needs to be implemented by primary legislation and at a practical level to guarantee the judiciary's professional impartiality and political neutrality.

Further progress can be noticed in the fight against corruption, notably in translating and implementing the government policy into concrete actions and transposing international obligations. Corruption, however, remains a serious cause for concern. In order to continue improving the fight against corruption Slovakia should rigorously carry on the implementation of the action plans, strictly enforce existing legislation and complete planned legislation as well as strengthen administrative capacities and co-ordination among the bodies involved.

The constitutional reform also created the basis for the strengthening of Slovakia's institutional structure in the field of human rights. However, there is a need to address police behaviour, notably with regard to reported cases of ill-treatment

Significant efforts in further developing and putting into practice approaches to protect minority rights were taken in the reference period, notably in implementing relevant Government strategies. Positive steps were achieved towards enhancing the use and protection of minority languages. As regards the Roma minority, the implementation of the Roma strategy, adopted subsequently in 1999 and 2000, should be further enhanced and the appropriate financial means at national and local level should be made available. In this context it will be important to improve efforts to fight against widespread discrimination.

The short term priorities of the 1999 Accession Partnership related to the modernisation and decentralisation of the public administration were fulfilled. Important steps were taken in strengthening the independence of the judiciary, which constituted a short term priority, as well. Despite further positive measures, tangible improvement of the situation of the Roma minority, another short term priority, was achieved only to a limited extent. So were the medium term priorities for the political criteria of the 1999 Accession Partnership, calling for continued implementation of

minority language legislation and strengthening policies and budgetary means towards the Roma minority.

Slovakia is a functioning market economy. Provided that it makes further substantial efforts in medium term fiscal consolidation and in developing and fully implementing the announced structural reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Overall, macroeconomic stability has been maintained. There has been further good progress in bank privatisation, which is nearing completion. Further progress was also made in restructuring and towards privatisation of the remaining state-owned utilities and transport enterprises. Further progress was made in setting the framework for private sector development.

However, the substantial widening in the current account deficit will require a more prudent fiscal policy stance. Unemployment is high and rising. Some parts of the legal and institutional framework for enterprise development are in need of further improvements and effective implementation. Financial sector supervision has to be further strengthened. Steps must be taken to ensure the medium-term sustainability of public finances. The authorities need to comply with their fiscal targets, by implementing medium-term public expenditure reforms, in particular in the health, pension, and subsidy areas. Macroeconomic stabilisation will need to be consolidated by a continued prudent combination of fiscal and monetary policy. Further progress in privatisation, in the administrative and legal framework and in financial sector reforms will set the stage for future private sector development. Growth in employment will further require fundamental reforms of the labour market.

Slovakia has continued to make good progress in legislative alignment with the *acquis*. As last year, progress has not been uniform across chapters. Significant progress has been achieved in areas such as free movement of goods, company law, social policy and employment as well as customs union. Structural weaknesses have persisted in a number of sectors, namely in agriculture as well as regional policy and co-ordination of structural instruments. While further progress in strengthening administrative capacities was made, reinforced and sustained efforts are needed across all sectors.

Concerning *internal market legislation*, further progress has been achieved, notably in *free movement of goods* and *free movement of services*. In the area of *free movement of persons*, progress continues to be limited. In *company law*, with the exception of trademarks, significant legislative progress has been made, especially through further alignment with the company law directives and adoption of a new patent law. Appropriate strengthening of administrative and judicial bodies involved in all areas of intellectual and industrial property rights should be continued. In *competition policy* the amendment to the Act on State Aid has brought the legislative framework largely in line with the *acquis*. In contrast to the anti-trust area, however, the enforcement record in the field of state aid remains rather sketchy and non-transparent. Administrative capacities in the internal market domain need reinforcing, in particular as regards the supervision of financial services.

As regards *agriculture*, overall steps both in aligning and implementing the *acquis* have been limited with the exception of veterinary issues, where significant progress was made. Efforts should be reinforced to establish an Integrated Administration and Control System, the adoption of specific market regulations should be accelerated, alignment in the phytosanitary sector speeded up and administrative capacities, including border inspection posts, strengthened.

Further legislative alignment was achieved in the field of *transport*, notably in relation to land transport. Substantial alignment across all sectors and reinforcement of the administrative capacities, including completing the setting-up of the necessary structures is, however, needed.

Limited legislative alignment of indirect and direct *taxation* has been accomplished and additional efforts are required for adjusting VAT and excise duty rate levels. The reform of the Slovak tax administration has moved forwards, the measures for its modernisation should be vigorously pursued. The IT tax information systems allowing for the exchange of electronic data with the EC and its Member States should be developed.

Further positive steps have been taken in the *energy* sector with the decision to substantially open the domestic electricity market and the launching of the privatisation of major energy companies. As regards nuclear energy, Slovakia should implement its decommissioning commitments, and continue to ensure a high level of nuclear safety. In *industrial policy*, Slovakia kept its reform momentum by continuing privatisation, particularly in banking privatisation, and enterprise restructuring. With the exception of postal services, Slovakia has reached an overall high degree of alignment in the area of *telecommunications and information technologies*. Emphasis should now be put on the effective implementation and strengthening of administrative capacities. Legislative alignment in the field of *consumers protection*, notably on non-safety related issues, has continued. Efforts to ensure adequate co-ordination and strengthening of those bodies involved in market surveillance need to be continued.

In the field of *social policy and employment*, considerable progress has been achieved notably in further aligning with the *acquis* in the area of labour law and equal treatment for women and men. The focus needs to move now to the implementation, with a particular emphasis on the enforcement of health and safety at work.

Progress in the field of *regional policy and co-ordination of structural instruments* has continued to be limited. The lack of sufficient and qualified staff in the relevant ministries and bodies involved remains a matter of concern.

Concerning *environment*, legislative alignment – with the exception of water quality, nature protection and industrial pollution and risk management, has well advanced although substantial alignment is still lying ahead. The measures to strengthen the administrative capacities should be rigorously pursued.

In the area of *co-operation in the field of justice and home affairs*, further progress in terms of alignment and administrative capacities has been achieved notably with regard to external border control by, inter alia, adopting a Schengen Action Plan, as well as in the fields of visa policy and police co-operation. Considerable progress in all

relevant areas is needed, including reinforced efforts for strengthening administrative capacities.

Considerable steps were taken in the area of *customs union* with the entering into force of the new Customs Act and the Act on State administration bodies in the field of customs. IT systems allowing for the exchange of computerised data between the EC and Slovakia should be developed. Significant progress can be reported in the area of *financial control*, where the basic legislative framework for public internal financial control and external audit is now in place. Particular emphasis should be put on the area of control over structural action expenditure and protection of EC financial interests.

As regards *administrative capacities*, while good progress was made in a limited number of domains in strengthening the relevant institutions, overall progress in this regard has been limited. Whereas considerable progress has been achieved in the areas of free movement of capital and customs union, little progress can be reported notably in agriculture, transport policy, regional policy and co-ordination of structural instruments as well as co-operation in the fields of justice and home affairs. As regards enforcement, more efforts should be invested particularly in the areas of company law, competition policy, as well as social policy and employment. The positive momentum reached in strengthening administrative capacities in the areas of taxation, energy and environment should be maintained. The institutions and mechanisms related to the efficient and controllable management of EC funds needs to be considerably strengthened.

The decision of the Government to increase the number of staff dealing with EU integration by approximately 1 200 persons by 2002 is a welcome step necessary to strengthen the overall still weak administrative capacities.

The short term priorities of the *1999 Accession Partnership* have been met to a large extent in the field of internal market and social policy and employment; they have been partially met in the area of energy as well as co-operation in the fields of justice and home affairs and only to a limited extent in agriculture and environment. All medium term priorities have been partially met, with the exception of transport policy, regional policy and co-ordination of structural instruments as well as environment, where priorities were fulfilled only to a limited extent.

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. Over the past year, further efforts have been made in this direction. Slovenia continues to fulfil the Copenhagen political criteria.

Slovenia has made good progress in judicial reform through adoption of new legislation and implementation of measures introduced partially already in the previous year aiming at abolishing the backlog of pending court cases. As a result, the number of pending court cases has been reduced significantly.

Overall public administration reform has progressed over the previous year. However, the Laws on Civil Servants and Public Agencies still remain to be adopted. They are an important part of the framework legislation for public administration reform providing for the independence of the civil service and status of public agencies. The efforts in this area should be continued.

There is a need to address police behaviour notably with regard to certain reported cases of ill-treatment.

The Accession Partnership of 1999 defines the acceleration of public administration reform as a short-term priority, which can be considered as having been met. However, adoption of legislation on public agencies, identified as a medium term priority, remains to be implemented. Slovenia has progressed well with fulfilling the medium term priority concerning improvement of the functioning of the judicial system. Continuation of efforts to resolve outstanding border issues with Croatia is defined as a medium-term priority and has now been fulfilled.

Slovenia is a functioning market economy. Provided that it implements the remaining reforms to increase competition in domestic markets, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Macroeconomic developments have continued to be generally favourable, with a steady GDP growth, low unemployment, and a reduction in the current account deficit. Remaining restrictions to capital movements are progressively being removed, in the context of a policy of managed exchange rates.

However, the persistent inflation, linked to widespread indexation in the Slovene economy and to the monetary and exchange rate policy framework, remains a concern. Labour markets are not sufficiently flexible. The functioning of markets could be improved by decreasing the state's influence in certain areas of the economy. The authorities should now progress with the implementation of the announced structural reforms and privatisation in a number of essential sectors such as banking and insurance. This would help to attract more foreign investors and provide a better microeconomic basis for a sustained growth performance in the medium term. These structural measures will free up monetary and exchange policy to focus on price stability instead of maintaining external competitiveness. The ongoing financial sector reform will also provide a more robust environment for completing the liberalisation of capital movements.

Since the last Regular Report, Slovenia has made good overall progress in transposition and implementation of the *acquis*. It has made significant progress in the areas of company law, agriculture, transport, energy, culture and audio visual and telecommunications. However, only limited progress has been made in other areas, notably on regional policy, free movement of persons, social policy and employment, and consumer and health protection. It has continued to strengthen the administrative capacity, especially in the areas of free movement of goods, telecommunications, culture and audio-visual, and internal financial control.

Slovenia has made good progress since the last Regular Report in adopting and implementing legislation in key areas of the internal market *acquis*. Substantial legislative progress has been made in *company law* and the legislative framework is

now nearly complete. Slovenia should now focus on implementing the new provisions on intellectual and industrial property rights adequately. Good progress has also been made in completing the legislative framework for *free movement of goods*, and attention should now be given to strengthening the institutional set-up, including the newly created Standardisation Institute and the market surveillance systems. In the reporting period, Slovenia made substantial progress in removing restrictions to *free movement of capital*, but this process remains to be completed according to the timetable set by the government. Progress has also been achieved in *freedom to provide services* and alignment is advanced. The supervisory institutions in this area should be further strengthened. Although few new developments occurred in the area of *competition* policy, Slovenia's preparations in this area are already advanced and it should continue to focus on establishing a good track record of enforcement. Little progress has been made in the reporting period in the area of *free movement of persons* and Slovenia should speed up alignment especially on mutual recognition of professional qualifications and on citizen's rights.

Concerning *taxation*, Slovenia has continued to make steady progress and has now met its commitment on transformation of the duty free shops. It is important that Slovenia develops its IT systems to allow for the exchange of electronic data with the Community and its Member States.

Very good progress has been made in the *agriculture* area, notably by adoption of the new veterinary, plant health and plant protection acts. Priorities should now include strengthening of the administrative capacity, completion of CAP management mechanisms, and setting up of adequate phyto-sanitary and veterinary inspections .

Slovenia has made significant progress in legislative alignment in *transport* though adoption of the key aviation, maritime and road transport laws. It has continued to make progress in preparing for accession in the *energy* sector, especially by opening up the domestic electricity market.

Slovenia has made very little progress since the last Regular Report in preparing for accession in the area of *regional policy*. The preparations for implementation of the structural funds should be speeded up as a priority. Progress has also been limited in the reporting period in the area of *employment and social affairs* where adoption of the Employment Relations act has been delayed further.

The level of alignment in the *environment* sector is already high and efforts should now be focussed on adoption of the remaining key legislation in the areas of water quality, Genetically Modified Organisms (GMOs), and radiation protection. Little progress has been made in the reporting period in the area of *consumer protection* and substantial efforts are required especially in the area of non-safety related measures.

Slovenia has taken a substantial step forward towards completing legislative alignment and ensuring the implementation of the *acquis* in the *telecommunications, culture and audio visual* sectors by adopting key legislation and setting up the Agency for Telecommunications and Broadcasting.

Some progress has been made in the field of *justice and home affairs*, notably through the adoption of the Schengen Action Plan and reinforcement of staff for processing asylum applications. Slovenia should continue its efforts to improve its capacity and infrastructure for border control, create adequate facilities for asylum seekers separate from the centre for illegal immigrants and adopt the remaining secondary legislation.

Slovenia has already reached a good level of alignment in the *customs* area and should now focus on completing legislative approximation and strengthening of its administration through the on-going reform, including development of IT systems so as to allow for the exchange of computerised data between the EC and Slovenia.

Good progress has been made in the area of external *financial control* through adoption of the new law on the Court of Audit and preparations are already advanced in this area. Attention should now be given to strengthening public internal financial control.

Slovenia's administrative capacity for the implementation of the *acquis* has been enhanced. Since the last Regular Report, significant progress has been made with the establishment of the implementing, supervisory, regulatory institutions in the areas of free movement of goods, telecommunications, culture and audio-visual. Most of the institutions necessary for the implementation of the *acquis* are now in place and attention should now be focussed on providing them sufficient resources to carry out their work. Administrative capacity needs to be developed in the area of management of the structural funds. An independent supervisory agency still remains to be effectively established for data protection. Further efforts are also required in establishing the necessary administrative capacity to ensure sound, efficient and controllable management of EC funds.

Slovenia has met a large part of the short-term Accession Partnership priorities in the areas of economic criteria, internal market, agriculture, transport, environment, employment and social affairs, and justice and home affairs. In the area of reinforcement of the administrative and judicial capacity (including the management and control of EC funds) the priorities have been met partially. It should now focus especially on the remaining short term priorities, especially related to control of EC funds. Slovenia has also made good progress in implementing a number of the medium term priorities. It should speed up its preparations in the area of economic and social cohesion and ensure fulfilment of priorities especially in the areas of the economic criteria, internal market, agriculture, and employment and social affairs.

Turkey

The constitutional amendments adopted by the Turkish Parliament on 3 October 2001 are a significant step towards strengthening guarantees in the field of human rights and fundamental freedoms and limiting capital punishment. The amendments narrow the grounds for limiting such fundamental freedoms as the freedom of expression and dissemination of thought, freedom of the press and freedom of association. Attention has now turned to the effective implementation of these important changes. The Turkish Government is finalising a package of new draft legislation that is aimed at implementing a number of constitutional amendments, in particular with respect to freedom of expression and thought. It should facilitate progress towards satisfying the Accession Partnership priorities.

Despite these changes, a number of restrictions on the exercise of fundamental freedoms have remained. The extent to which individuals in Turkey will enjoy real improvement in the exercise of fundamental freedoms will depend on the details of implementing legislation, and the practical application of the law. It is encouraging that a general principle of proportionality has been introduced and that the stated general aim of the reform is effectively to bring to the forefront respect for human rights and the rule of law.

The moratorium on the death penalty has been maintained. The revised Article 38 of the Constitution limits the death penalty to cases of terrorist crimes and in times of war or imminent threat of war. The exception for terrorist crimes is not in line with Protocol 6 to the European Convention on Human Rights (ECHR) (which does not permit any reservations), whereas the exception in the case of war crimes is permitted under Protocol 6. Legislative changes to the Penal Code will be needed to put this revised Article into effect. This will permit an assessment of whether Turkey is in a position to sign and ratify Protocol N° 6 to the ECHR.

The reforms related to economic, social and cultural rights contain a number of positive elements. The provisions forbidding the use of languages prohibited by law, in Articles 26 and 28, have now been abolished. This could pave the way for the use of languages other than Turkish and is a positive development. Existing restrictive legislation and practices will need to be modified in order to implement this constitutional reform, as the Turkish authorities have recognised. There has been no improvement in the real enjoyment of cultural rights for all Turks, irrespective of their ethnic origin.

A number of substantial prison reforms have been adopted. Turkey is encouraged to ensure that these reforms are fully implemented. The disproportionate use of force in breaking up prison protests is to be regretted. The continuing loss of life as a result of hunger strikes is unacceptable from a humanitarian point of view. Irrespective of the political motives of those involved, efforts should be stepped up to prevent further deaths. Free debate on these issues should be allowed.

Reform of the judicial system has begun. The independence of the judiciary, the powers of State Security Courts and military courts and compliance with rulings of the European Court of Human Rights remain matters of concern.

A number of initiatives have been taken to increase the awareness of law enforcement officers and judicial personnel of human rights issues, but it is too early to assess the practical impact of these.

Despite several initiatives to foster more transparency in Turkey's public life, corruption remains a serious problem. The recent signature of important Council of Europe Conventions on corruption and on money laundering is a positive development.

Further action needs to be taken to improve the economic situation in the South East to reduce regional disparities and to enhance economic, social and cultural opportunities for all citizens. The state of emergency still applies to four provinces in this part of the country.

The basic features of a democratic system exist in Turkey, but a number of fundamental issues, such as civilian control over the military, remain to be effectively addressed.

Despite a number of constitutional, legislative and administrative changes, the actual human rights situation as it affects individuals in Turkey needs improvement.

Though it is beginning to make progress in some areas, Turkey does not yet meet the Copenhagen political criteria and is therefore encouraged to intensify and accelerate the process of reform to ensure that human rights and fundamental freedoms are fully protected in law and practice, for all citizens, throughout the country.

Fuller use should be made of the *enhanced political dialogue* to further stimulate progress on key issues which are priorities of the Accession Partnerships, such as human rights, Cyprus and the peaceful settlement of border disputes.

Given Ankara's support for the decision of Mr. Denktash to withdraw from the UN proximity talks and to decline the UN Secretary General's invitation to talks in New York, the support Turkey has expressed in the political dialogue for the UNSG's efforts to find a comprehensive solution of the *Cyprus problem* should now be followed by concrete steps by Turkey to facilitate a solution.

Confronted with two financial crises, Turkey has been unable to make further progress towards achieving a functioning market economy. Considerable parts of its economy are, however, already competing in the EU market, under the framework of the customs union with the EC.

The two financial crises brought to a halt economy recovery and put an end to the preceding economic stabilisation programme. Macroeconomic stability has been shaken, and many macroeconomic imbalances have reappeared. Turkey has adopted, and has been implementing, an ambitious economic reform programme that addresses better than its predecessor the risks and vulnerabilities of the domestic financial sector and seeks to reduce government intervention in many areas of the economy. These problems were at the heart of the crises.

Priority has to be given to establishing short-term macroeconomic stability, based on disinflation. However, the authorities must also continue to focus on establishing a solid basis for sustainable market-based economic development in the medium term. Significant restructuring is still needed in various sectors, such as banking, agriculture and in state enterprises, in order to guarantee the medium-term competitiveness of the economy as a whole. They will need to redefine their budgetary priorities, in a medium-term perspective, in order to provide a sufficient level of investment in education, health, social services and public infrastructure across the country.

Turkey's alignment with the *acquis* is most advanced in the areas covered by the Customs Union. Since the last Regular Report, further alignment has taken place in these areas. In addition, significant legislation was adopted in the field of banking including on the Central Bank, and in sectors such as telecommunications, energy and agriculture. However, in some cases newly adopted legislation departed considerably from the *acquis* (cosmetics, audio-visual policy, social policy). Major discrepancies

between the *acquis* and Turkish legislation have remained. Progress in strengthening administrative capacity to implement the *acquis* has been limited.

Regarding the *internal market*, various pieces of legislation on free *movement of goods* have been adopted including standards. The adoption of a framework for technical legislation is particularly significant. Further steps need to be taken in a number of areas. The existing regime of public procurement is not in line with 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. Major efforts are required to further align legislation in the field of non-financial services. The implementation of legislation in the field of money laundering should be given greater attention. In the area of *company law*, no progress has been made in establishing a new commercial code. Important steps have been taken to align legislation on intellectual property rights with the *acquis*. Specialised courts have been set up in the field of intellectual property protection, but the enforcement capacity in this field needs to be strengthened. In the field of *competition policy*, the application of anti-trust provisions remains satisfactory. Turkey's state aid policy is not compatible with the *acquis*. Despite a new law, the situation with respect to monopoly adjustment on alcohol and tobacco remains a matter of concern.

Turkey has started a substantial reform in the *agricultural* sector. However, some of the basic features of the new Turkish direct income policy differ from the current approach in the EU. Turkey has not established a number of basic mechanisms, such as a nation wide land register. It should focus on the transposition, implementation and enforcement of EC legislation in the veterinary and phytosanitary sectors.

On *fisheries*, no progress has been made in the alignment with the Common Fisheries Policy. A modernised fleet registration system needs to be established.

As regards *transport policy*, Turkey should step up the legislative work necessary to adopt the Community transport *acquis*. The administrative capacity to apply and implement the relevant legislation in all sectors should be improved.

On *taxation*, significant progress is required in particular on approximation of the rates applied in the VAT system.

In most fields, Turkey's *statistical* infrastructure is still very different from that of the EU. No concrete progress can be reported.

Steps have been taken in the field of *Social Policy and Employment* but not all conform with the *acquis*. The new law on the Economic and Social Council, for example, fails to create the conditions for a genuine social dialogue. Turkish legislation remains very different from that of the EC. As regards *energy*, substantial progress has been achieved in the field of electricity and gas sectors. The two major laws adopted this year are important steps in preparing Turkey for the internal energy market.

In the *telecommunications* sector, the new regulatory framework should be brought in to line with the *acquis* on matters such as universal services and data protection.

As regards *regional policy*, Turkey has made no progress and considerable attention needs to be paid to prepare the implementation of structural policies.

In the *environmental field*, further new legislation needs to be adopted including an important framework law, which is pending before parliament.

In the field of *justice and home affairs*, Turkey recently signed three important conventions of the Council of Europe on money laundering and the fight against corruption. A bilateral agreement with Greece to combat crime has entered into force. Turkey has taken initiatives to align with the EU's visa policy and to conclude readmission agreements in the field of migration. Administrative capacity should be strengthened in the field of border controls and the fight against illegal immigration.

In *customs*, there is almost full alignment.

On *financial control*, budgetary and financial control mechanisms inside the Turkish Government should be improved.

Administrative capacity in different areas needs to be strengthened to ensure that the *acquis* is implemented and enforced effectively. A 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.

The Accession Partnership with Turkey was adopted in March 2001 and Turkey has made substantial preparatory efforts for its implementation. Turkey gained greater understanding of the *acquis* and the government has started an intensive process of preparation of new legislation. In the areas of free movement of goods, intellectual property protection, energy, telecom and customs, the measures taken have partially met the short term Accession Partnership priorities. Considerable further efforts are needed to meet the short term Accession Partnership priorities related to the *acquis*.

Annex 2: Candidate countries: main statistical indicators (2000)

	Area	Population	Density	GDP in P.P.S. (Purchasing Power Standards)(1) (2)			GDP % Change	Agriculture	
	1000 km ²	Million inhabitants	Inhab./km ²	Billion € P.P.S.	€/ inhab. P.P.S.	€/ inhab. % EU average	%	% gross added value	% employment
Bulgaria	111	8,2	74	44,3	5400	24	5,8	14,5	n.a.
Cyprus	9	0,8	82	12,4	18500	83	4,8	3,8	9,2
Czech Rep.	79	10,3	130	135,1	13500	60	2,9	3,9	5,1
Estonia	45	1,4	32	12,1	8500	38	6,9	6,3	7,4
Hungary	93	10,0	108	117,0	11700	52	5,2	4,8	6,5
Latvia	65	2,4	37	15,6	6600	29	6,6	4,5	13,5
Lithuania	65	3,7	57	24,3	6600	29	3,3	7,6	19,6
Malta	0,3	0,4	1240	4,6	11900	53	5,0	2,3	1,9
Poland	313	38,6	124	337,9	8700	39	4,0	3,3	18,8
Romania	238	22,4	94	135,4	6000	27	1,6	12,6	42,8
Slovakia	49	5,4	110	58,3	10800	48	2,2	4,5	6,7
Slovenia	20	2,0	98	32,0	16100	72	4,6	3,2	9,9
Turkey	775	65,3	84	433,3	6400	29	7,2	14,6	34,9

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.

2000

	Inflation rate	Unemployment rate	General Government Spending	External Trade				Current Account	Foreign Direct Investment	
	Annual Average	International Labour Organisation Definition % active population (5)	Balance in GDP %	Trade balance exports/imports in %	Exp⇒ EU in % total exports	Imp⇐ EU in % total imports	Balance of EU with the countries (Mio €)	Balance % G.D.P.	Stock € per capita (3) (4)	Net inflow % G.D.P. (4)
Bulgaria	10,3	16,4	-0,7	74,1	51,2	44,1	146	-5,0	239	7,1
Cyprus	4,9	3,4	-3,2	12,2	47,7	55,9	2098	-5,2	n.a.	1,8
Czech Rep.	3,9	8,8	-4,2	90,1	68,6	61,9	2330	-4,7	2213	9,0
Estonia	3,9	13,7	-0,7	74,5	76,5	62,6	94	-6,7	1980	8,0
Hungary	10,0	6,4	-3,1	87,6	75,1	58,4	1086	-3,3	1790	2,9
Latvia	2,6	14,6	-2,7	58,5	64,6	52,4	118	-6,9	943	5,7
Lithuania	0,9	16,0	-3,3	69,8	47,9	43,3	403	-6,0	683	3,4
Malta	2,4	4,5	-6,6	71,9	33,5	59,9	1773	-14,5	n.a.	18,0
Poland	10,1	16,1	-3,5	64,7	69,9	61,2	10530	-6,3	671	5,3
Romania	45,7	7,1	-3,8	78,8	63,8	56,6	1061	-3,7	317	2,8
Slovakia	12,1	18,6	-6,7	92,8	59,1	48,9	-434	-3,7	1000	10,8
Slovenia	8,9	7,0	-2,3	86,4	63,8	67,8	1818	-3,3	1348	1,0
Turkey	54,9	6,6	-11,0	50,9	52,3	48,8	12266	-4,9	n.a.	0,5

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

(4) Balance of payments data

(5) for Malta in registered unemployed

Sources : Eurostat from national sources.

Annex 3: The pre-accession strategy

The pre-accession strategy consists of a combination of priority setting coupled with a number of instruments including financial assistance, Association Agreements, participation in Community programmes and agencies. It helps the candidate countries to prepare for their future membership by aligning with the *acquis* before accession.

a) Priority setting

The **Accession Partnerships** are the cornerstone of the pre-accession strategy. The current Accession Partnerships were adopted in December 1999 for the Central and Eastern European candidate countries, in March 2000 for Cyprus and Malta and in March 2001 for Turkey. On the basis of the analysis presented in the Regular Reports, they set out the priorities for each country to meet the accession criteria. They also indicate the financial assistance available from the Community in support of these priorities and the conditions attached to that assistance.

The EU has not had to invoke the conditionality clause of the Accession Partnership Regulation, which relates to insufficient progress towards meeting the accession criteria or failure to meet Association Agreement obligations. Achievements and shortcomings in the implementation of the current Accession Partnership priorities are underlined in each Regular Report.

Proposals to revise the Accession Partnerships are being presented on this occasion by the Commission to the Council at the same time as the Regular Reports. They identify priority areas which need to be addressed in 2002 and 2003. These proposals concern all countries except Turkey where a revision is not necessary due to the recent adoption of the current Accession Partnership.

In response to the Accession Partnership, each candidate country establishes and regularly updates its **National Programme for the Adoption of the *Acquis*** (NPAA), which indicates the human and financial resources, and the timetable needed to meet the accession priorities. Turkey adopted a national programme for the first time in 2001 while all other candidate countries have updated their programmes during the first semester of 2001. In some countries the NPAA's now form part of the budgetary process. An assessment of each NPAA is included in the corresponding Regular Report.

b) Financial assistance

Central and Eastern European candidate countries have benefited from EC financial assistance since the beginning of the transition process through the PHARE programme. PHARE is now complemented by two programmes which help the countries prepare for participation in the Cohesion and Structural Funds. ISPA allocates over € 1 billion a year to investment in environment and transport infrastructure in preparation of the Cohesion Fund. SAPARD foresees the allocation of over € 500 million a year to agricultural and rural development in preparation of participation in agriculture and fisheries structural funds.

With an annual budget of over € 1.6 billion, the **PHARE** programme co-finances institution building together with associated investment in the infrastructure for the implementation of the *acquis* and support for economic and social cohesion to help the candidates prepare for the implementation of Structural Funds after accession. Around one third of the funds are allocated to each of these three areas.

PHARE support for Institution Building helps the candidates' strengthen their capacity to implement and enforce the *acquis*. Twinning is the principal instrument in this respect. It involves the secondment of practitioners from Member States ministries, regional bodies, public agencies and professional associations for at least one year to counterpart institutions in the candidate countries. It has been operational in the Central and Eastern European countries since 1998.

Twinning was extended to Cyprus and Malta in 2001 and will be extended to Turkey as from 2002 under their respective financial instruments. There are now about 500 twinning projects covering most areas of the *acquis* (see annex 5 for more detailed information).

As from the beginning of this year, candidate countries are being offered the possibility of drawing on Member States' experience for smaller projects of short to medium term duration through a new mechanism known as "twinning light". The first projects will start at the end of 2001. In addition, TAIEX (Technical Assistance Exchange Office) remains a source of short term advice and SIGMA (PHARE-financed and managed by OECD) provides advice on horizontal government functions in Central and Eastern European countries, focusing on the reform of the civil service, financial control and audit.

SAPARD implementation is fully decentralised. On the basis of rural development plans approved by the Commission, SAPARD co-finances rural development projects selected by the beneficiary countries. The implementation structure for each country is based on a SAPARD Agency, responsible for management and payments, which must be accredited by the Commission. This process has proved to be more complicated but is now under way and has been partially completed in Bulgaria and Estonia. In view of the difficulties encountered, it needs to be speeded up for the other candidate countries.

Under **ISPA**, each country has prepared national strategies for transport and environment, on which basis the Commission approved projects for the full amount available for the year 2000 with an almost equal share between the two sectors. A similar outcome is expected in 2001.

The **European Investment Bank** has a loan potential of over € 17 billion for 2000-2007 in Central and Eastern European countries – covering also some non candidates- (€ 8.9 billion with Community budget guarantee, € 8.5 billion in a pre-accession facility without this guarantee). Actual lending is expected to reach € 3.5 billion in 2001.

The Council adopted in March 2000 a Regulation for both **Cyprus** and **Malta** on pre-accession operations. It provides for a financial contribution of € 95 million over the period 2000-2004 towards meeting the priorities of the Accession Partnerships. The budgetary allocation for 2000 is € 6 million for Malta and € 9 million for Cyprus. These two countries are eligible to the EIB pre-accession facility and to the € 6.425 billion EIB facility for Mediterranean countries. EIB loans to Cyprus amounted to € 200 million in 1999.

Financial grant assistance to **Turkey** in 2001 is expected to reach € 177 million from MEDA and the two 'European strategy/ pre-accession strategy' regulations. These funds are available for structural reforms, institution building and investment in the *acquis*, in line with the approach for the other candidate countries. The Commission has proposed a new financial assistance regulation to ensure an accession driven approach in the assistance and to bring management and procedures closer to those of the PHARE programme. This regulation will provide the legal base for a single budget line, thus replacing the three existing instruments (although Turkey will remain eligible for multi-country MEDA programmes).

Turkey can obtain **EIB** loans under the so-called Euromed II Lending Mandate. This amounts to €6.425 billion for the period January 2000 to January 2007. Moreover, Turkey was recently accepted as eligible to benefit from the EIB pre-accession facility (see above). A Special Action Mandate (for € 450 million) is under implementation. In addition, an earthquake reconstruction facility (TERRA) of € 600 million is available. Turkey is, moreover, eligible under a new 'Mediterranean Partnership Facility' of € 1 billion covering the whole region.

The Association Agreements

The **Europe Agreements** with the Central and Eastern European candidates provide a framework for monitoring the adoption of the *acquis* and the implementation of Accession Partnership priorities. The analytical examination of the *acquis* is now conducted mainly in the sub-committees established under these agreements (see below). There are similar association agreements with the Mediterranean candidates.

The Europe Agreements with Hungary and the Czech Republic have entered their **second stage** respectively in June 2000 and February 2001. In both cases, this means further liberalisation in particular as regards the provisions on establishment. The Commission is examining the transition to the second stage by the following other associated countries: Bulgaria, Poland, Romania, and Slovakia. In the case of Slovenia, the first stage lasts in principle until 2003. The Europe Agreements with Estonia, Latvia and Lithuania do not require a transition to the second stage.

By removing tariffs and quantitative restrictions, the Europe Agreements allow reciprocal free trade in **industrial products**. In doing so, they foster higher economic integration with the EU. Additional trade concessions with the Central and Eastern European candidates in the field of **agricultural products** were granted, on an autonomous and reciprocal basis in July 2000 (January 2001 in the case of Lithuania), pending the entry into force of additional protocols to the Europe Agreements. Negotiations with each of these countries to broaden the scope of the agricultural trade concessions, and similar negotiations with Cyprus and Malta are being prepared. In parallel, additional trade concessions on **processed agricultural products** entered into force in September 2001 with Estonia and in November 2001 with Slovenia. With regard to Bulgaria, Hungary, Slovakia, Latvia and Lithuania additional trade concessions for these products are in the process of being decided.

Protocols to the Europe Agreements on **European Conformity Assessment** (PECA) entered into force on 1 June 2001 with Hungary and on 1 July 2001 with the Czech Republic. Agreements on such Protocols were initialled with Latvia and Lithuania; negotiations with Estonia, Slovakia and Slovenia are underway. The PECAs aim at extending internal market rules on conformity assessment for manufactured goods to the candidate countries before accession. Under the PECAs, the candidate countries have to introduce the *acquis* for selected sectors. The EC and the candidate country also agree to accept each other's technical bodies for assessing the conformity of goods with the legislation, making technical checks at border crossings unnecessary.

As regards **Turkey**, the implementation of the Customs Union remains the cornerstone of bilateral relations. The negotiations, opened in April 2000 on an agreement aiming at the liberalisation of services and at the mutual opening of public procurement, are underway.

Participation in Community programmes and Agencies

All candidate countries participate, more or less intensively, in **Community programmes**. Central and Eastern European countries participate in particular in education, vocational training, youth, research, culture, audio-visual, energy, the environment, small and medium-sized enterprises and public health programmes. Cyprus participates in certain programmes in audio-visual, education, vocational training, youth, scientific research, the environment and small and medium-sized enterprises, while Malta does so in programmes dealing with scientific research, education, vocational training and youth. Turkey participates in two Community programmes at project level only (LIFE and the 5th Framework Programme for Research and Technological Development). Following the Helsinki European Council conclusions in December 1999, preparations for full Turkish participation in education, vocational training and youth programmes are ongoing, and participation in other programmes is under discussion.

As announced in last year's strategy paper, in order to streamline procedures for the participation of candidate countries in Community programmes, general Association Council decisions for each Central and Eastern European country, as well as agreements for Cyprus, Malta and Turkey, are in the process of being concluded. These new instruments should considerably facilitate such participation. On the basis of these instruments which establish the general principles for participation in existing and future programmes, the Commission and the competent authorities of the candidate countries will negotiate the terms and conditions for participation in individual programmes. Candidate countries can continue to use pre-accession aid to co-finance the cost of their participation.

Following the recent ratifications of the relevant agreements, all 13 candidate countries will become members of the European Environment Agency in 2002. Similar agreements will shortly be negotiated with interested candidates for their participation in the European Monitoring Centre for Drugs and Drug-Addiction. Preparations for participation of candidate countries in other Community agencies are also under way.

Analytical examination of the *acquis*

The analytical examination of the *acquis*, 'screening', with the negotiating countries, which helped identify issues to be taken up in the negotiations, was completed in 1999. The new *acquis* adopted and published until the end of 2000 has been transmitted to those countries, so as to allow them to take a position on that new *acquis* in the context of the negotiations. As explained in last year's strategy paper, the Association committees and sub-committees are being used to explain the new *acquis* and to discuss its adoption and implementation. In addition, where necessary, meetings to explain the new *acquis* have been organised on certain chapters, such as transport, agriculture or telecommunications.

In 2002, the same procedures will apply with the following exception. To take into account that negotiations with the most advanced countries will come closer to their conclusion, the new *acquis* will be transmitted twice to the negotiating countries: once at the beginning of the year to cover the new *acquis* adopted in 2001 and a second time at the beginning of the second semester to cover the new *acquis* adopted during the first semester of 2002.

In the same way, with Turkey, the process of analytical examination of the *acquis* is being prepared in the context of the eight sub-committees set up under the Association agreement which started their work in June 2000. Since then, each subcommittee already met twice. A report to the Council on progress in preparing the process of analytical examination of the *acquis*, as requested by

European Council of Santa Maria da Feira, is being presented by the Commission as an annex to the Regular Report on Turkey.

The European Conference

The European Conference was created as a forum for political consultation on issues of common interest to the EU Member States and the candidate countries. Turkey has started to participate in the European Conference since a meeting held at ministerial level in Sochaux on 23 November 2000. Another conference, held at the level of Heads of State and Government on 7 December 2000, provided an opportunity for discussing the institutional reform and the operation of the Union in the longer term.

The Nice European Council proposed “that the countries covered by the stabilisation and association process and the EFTA countries be invited to attend as prospective members”. The Göteborg European Council stated that “the European Conference will convene in its current composition under the Belgian Presidency. With a view to strengthening the Union's partnership with Ukraine and Moldova, they will subsequently be invited to join the Conference”. At the last meeting of the European Conference held on 20 October 2001 at ministerial level in Brussels, which showed a remarkable unity of purpose, the fight against international terrorism was discussed.

Annex 4: Human Rights Conventions ratified by the Candidate Countries,
30 September 2001

<i>Adherence to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SI	TK
ECHR (European Convention on Human Rights)	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	O	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
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	X	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	X	X	O	X	O	O	X	O	O	X	O	X	O
Framework Convention for National Minorities	X	X	X	X	X	O	X	X	X	X	X	X	O
ICCPR (International Covenant on Civil and Political Rights)	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	O	X	O	X	X	X	O
ICESCR (International Covenant on Economic, Social and Cultural rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
Optional Protocol to the CEDAW	O	O	X	O	X	O	O	O	O	O	X	O	O
CRC (Convention on the Rights of the Child)	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 5: Twinning projects in 1998-2001

NUMBER OF TWINNING PROJECTS FINANCED UNDER PHARE IN 1998-2001

Candidate Country	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>	9	11	13	8	2	4	2	49
<i>Cyprus</i>	---	---	1	---	---	---	---	1
<i>Czech Rep.</i>	6	6	11	16	9	3	9	60
<i>Estonia</i>	6	3	6	7	2	2	2	28
<i>Hungary</i>	7	9	12	8	4	4	4	48
<i>Latvia</i>	4	2	4	6	2	3	3	24
<i>Lithuania</i>	5	2	8	7	4	2	9	37
<i>Malta</i>	1	---	1	1	---	1	1	5
<i>Poland</i>	24	9	29	12	5	14	11	104
<i>Romania</i>	9	4	17	12	4	13	6	65
<i>Slovak Rep.</i>	7	6	10	14	6	2	6	51
<i>Slovenia</i>	8	1	7	7	1	2	4	30
Total	86	53	119	98	39	50	57	502

**NUMBER OF TWINNING PROJECTS 1998-2001* IN WHICH MEMBER STATES
ARE INVOLVED AS LEADERS OR PARTNERS**

Year	A	B	D	DK	E	FIN	F	GR	IRL	I	NL	P	S	UK	Total
1998	19	0	57	9	9	14	40	7	5	6	11	0	9	23	209
1999	14	2	38	12	16	7	33	9	3	13	19	2	27	27	222
2000	8	1	41	9	33	9	32	3	4	12	12	0	16	30	210
2001*	4	0	12	4	7	1	9	1	3	1	5	0	3	9	59
Total	45	3	148	34	65	31	114	20	15	32	47	2	55	89	641**

*) Selection of Twinning partners for 2001 not yet finalised.

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

a) Annex 6: State of Play of the Negotiations on 26 October 2001

ACCESSION NEGOTIATIONS : STATE OF PLAY													
N°	CHAPTER	CYP	CZECH	EST	HUN	POL	SLO	BUL	LAT	LIT	MAL	ROM	SLK
1	Free movement of goods	X	X	X	X	X	X	* 0	* X	* X	* X	~	* X
2	Free movement of persons	X	X	(X)	X	(X)	(X)	** 0	* X	* (X)	* X	~	* X
3	Free movement of services	X	X	X	X	X	X	* 0	X	X	* X	~	X
4	Free movement of capital	X	X	X	X	(X)	X	X	X	X	0	* 0	X
5	Company law	X	X	X	X	0	X	X	X	X	X	* 0	* X
6	Competition	0	0	0	0	0	0	* 0	0	0	0	0	0
7	Agriculture	0	0	0	0	0	0	~	* 0	* 0	**	~	* 0
8	Fisheries	X	X	X	X	0	X	* X	X	* X	0	* X	X
9	Transport	X	0	0	0	0	0	* 0	0	0	X	* 0	0
10	Taxation	0	0	0	X	0	0	** 0	* 0	* 0	* 0	** 0	* 0
11	EMU	X	X	X	X	X	X	~	X	* X	X	~	* X
12	Statistics	X	X	X	X	X	X	X	X	X	X	X	X
13	Social policy	X	X	X	X	X	X	** 0	* X	X	0	** 0	* X
14	Energy	X	0	0	X	X	X	**	* 0	* 0	* X	~	* X
15	Industry	X	X	X	X	X	X	~	X	X	X	~	X
16	SMEs	X	X	X	X	X	X	X	X	X	X	X	X
17	Science and research	X	X	X	X	X	X	X	X	X	X	X	X
18	Education and training	X	X	X	X	X	X	X	X	X	X	X	X
19	Telecommunication	X	X	X	X	X	X	X	* 0	X	X	0	X
20	Culture and audiovisual	X	X	X	0	X	X	X	X	X	X	0	X
21	Regional policy	0	0	0	0	0	0	**	* 0	* 0	* 0	~	* 0
22	Environment	X	X	X	X	X	X	** 0	* 0	X	* 0	~	* 0
23	Consumers and health protection	X	X	X	X	X	X	X	X	* X	X	** X	X
24	Justice and home affairs	0	0	0	0	0	0	* 0	* 0	* 0	* 0	~	* 0
25	Customs union	X	X	0	X	X	X	* 0	* X	* 0	* 0	* 0	X
26	External relations	X	X	X	X	X	X	X	X	X	X	X	X
27	CFSP	X	X	X	X	X	X	X	X	X	X	X	X
28	Financial control	X	X	X	X	X	X	* 0	* 0	* 0	* X	~	0
29	Financial and budgetary provisions	0	0	0	0	0	0	**	* 0	* 0	* 0	~	* 0
30	Institutions												
31	Other												
Chapters opened (1)		29	29	29	29	29	29	23	29	29	28	17	29
Chapters closed (2)		23	21	19	22	18	21	12	18	18	18	8	20

0 : Chapter opened, under negotiation

X : Chapter provisionally closed

(X) : Chapter for which the provisional closure proposed in the EUCP has not been accepted by the CC.

* : Chapter opened to negotiations under the Swedish Presidency

** : Chapter to be opened to negotiations under the Belgian Presidency

~ : Chapter not yet opened to negotiations.

