

REGULAR REPORT

FROM THE COMMISSION

ON

LATVIA'S

PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

In Agenda 2000 the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership and that it would submit its first report at the end of 1998. The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*. Prior to those reports, implementation of the accession partnerships and progress in adopting the *acquis* will be examined with each applicant State in the Europe Agreement bodies. The Commission's reports will serve as a basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States' ability to meet the economic criteria and fulfil the obligations deriving from accession.

A dynamic approach should be maintained in assessing the progress made by applicant States in the regular reports which the Commission will submit to the Council.”

The European Council in Cardiff supported those conclusions, stating that “The Union's priority is to maintain the enlargement process for the countries covered in the Luxembourg European Council conclusions, within which they can actively pursue their candidatures and make progress towards taking on the obligations of membership, including the Copenhagen criteria. Each of these candidate countries will be judged on the basis of the same criteria and will proceed in its candidature at its own rate, depending on its degree of preparedness. Much will depend on the efforts made by the candidate countries themselves to meet the criteria. All will benefit from strengthened relations with the EU including through political dialogue and tailored strategies to help them prepared for accession.”

In accordance with the guidance provided by these Council Conclusions, the progress report on Latvia follows the same structure as the Opinion. It

- describes the relations between Latvia and the Union, particularly in the framework of the Europe Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)

- assesses Latvia's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)
- addresses the question of Latvia's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

This approach ensures equal treatment for all the candidate countries. The report takes into consideration progress since the Opinion. It looks at whether intended reforms referred to in the Opinion have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. Each report contains a separate section which examines the extent to which Latvia has addressed the short term priorities set out in the Accession Partnerships.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the Opinion, the economic assessment is based on a longer term evaluation of Latvia's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. Only in this manner was it possible to objectively measure and compare concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the Opinion. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis* and the information provided in the context of the analytical examination of the *acquis* provided were additional sources of information. Council deliberations on the Opinion and the reports and resolutions of the European Parliament on the Commission Opinions¹ and in particular the report on the application of Latvia for accession to the EU prepared by Mr. Caccavale were taken into account in the preparation of the reports. The Commission also used assessments made by the Member States, particularly with respect to the political criteria for membership and the work of various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the IFIs as well as that of non-governmental organisations in preparation of the regular reports.

b) Relations between the European Union and Latvia

¹ European Parliament Doc. 224.339 'Report on the Communication from the Commission Agenda 2000' (Rapporteurs: A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens)

The Enhanced Pre-Accession Strategy

On 30 March 1998 the accession process was formally launched by a meeting of the Ministers for Foreign Affairs of the fifteen EU Member States, the ten Central and East European applicant states and Cyprus. In advance of this meeting country specific Accession Partnerships were adopted to support the applicant countries in their preparations for membership. These documents set out the priorities for further work and the supporting financial assistance available from the EU. In March Latvia presented a first version of a National Programme for the Adoption of the *Acquis* (NPAA) which describes in more detail the actions needed to reach the objectives set out in the Accession Partnership. An analytical examination of the *acquis* ("screening") started on 3 April. Pre-accession aid will be increased substantially. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agriculture and a structural instrument which will give priority to measures similar to those of the Cohesion Fund in environment and transport. The Phare programme will concentrate on institution building and investment in other areas.

Recent developments in bilateral relations

The Europe Agreement between the European Union and Latvia entered into force on 1 February 1998 following the completion of the ratification procedures. Latvia has implemented the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions.

The first meetings of the Association Council and the Association Committee were held in February and May 1998 respectively. The May 1998 meeting was the first to discuss the implementation of the Accession Partnership priorities. Since the entry into force of the Europe Agreement eight sub-committee meetings have taken place.

Since the issuing of the Opinion the Joint Parliamentary Committee comprising representatives of the Latvian and European Parliament met twice, in November 1997 and June 1998.

Latvia trade with the EU has continued to increase its share of total trade. During the first five months of 1998 Latvian exports to the EU accounted for 52% of total exports (Germany 14,7%, UK 12,9% and Sweden 9,9%). Imports from the EU amounted to 54% (Germany 17,2%, Finland 9,5% and Sweden 7,4%). Latvia's main export products to the EU are wood products and textile products, while the most important import products are machinery, equipment and chemicals.

Under the Europe Agreement an adaptation protocol, covering in particular agricultural and processed agricultural products, has been signed to take into account the results of the Uruguay Round and the accession of Austria, Finland and Sweden to the EU.

There is no specific trade problem in the relations between Latvia and the EU. Bilateral negotiations with Latvia on a Protocol on European Conformity Assessment

(PECA) started in October 1998. A new protocol to the Europe Agreement providing for the liberalisation of trade in textiles was initialled. Pending its formal conclusion, it has been applied provisionally since 1 January 1998.

The 1998 Phare programme consists of a national allocation (21 MECU), based on the Accession Partnership priorities, to support in particular naturalisation of non-citizens administrative capacity reinforcement, environment, transport as well as the participation in Community programmes and Tempus. An additional 2,5 MECU have been allocated for a cross-border co-operation programme.

In addition, funding will be provided under the Catch-up Facility², for anticorruption and industrial restructuring projects.

Under a new facility for large scale infrastructure projects, cofinanced by the European Investment Bank and the International Financial Institutions, 5 MECU will be provided for railways rehabilitation in 1998.

Latvia also participates in and benefits from Phare funded multi-country and horizontal programmes such as customs, environment, statistics, public administration reform and TAIEX.

B. Criteria for membership

1. Political Criteria

Introduction

In its 1997 Opinion on Latvia's application for EU membership, the Commission concluded that:

“Latvia presents the characteristics of a democracy, with stable institutions, guaranteeing the rule of law, human rights and respect for and protection of minorities. But measures need to be taken to accelerate the rate of naturalisation of Russian-speaking non-citizens to enable them to become better integrated into Latvian society.”

Furthermore, in the Accession Partnership with Latvia “measures to facilitate the naturalisation process to better integrate non-citizens including stateless children and enhance Latvian language training for non-Latvian speakers” are short-term priorities.

Recent developments

There have been a number of changes of government in Latvia since the publication of the 1997 Commission's Opinion. Following general elections in October 1998 the formation of the new Government had not been finalised by the time of publication of

² Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparations in certain areas.

this report. No major shift in government policy has taken place over the last year and EU-membership is still one of the Government's key objectives.

1.1 Democracy and the Rule of Law

The Parliament

The Latvian Parliament (Saeima) continues to operate satisfactorily. Its powers are respected and the opposition plays a full part in its activities.

A number of measures have been introduced which aim at improving the democratic functioning of the parliament. For example, in May 1998, the Saeima adopted a new law on the rules of procedure of the Saeima, including the institution of a common annotation system which will guarantee compatibility with international obligations and the *acquis*. In December 1997, the 1922 Constitution was changed to extend the term of the Saeima and the President from three years to four years and to reduce the voting period in parliamentary elections from two days to one. A separate law defined the President's powers to pardon convicted criminals.

The Executive

The central institutions of the State continue in general to operate smoothly.

Important steps have been taken to create an efficient and professional civil service. In July 1997, a Public Administration Reform Council and a Bureau for Public Administration Reform were established.

Further efforts are needed to streamline the public administration, to retain qualified staff and to improve the budgetary mechanism and internal audit system within each ministry.

The Judiciary

Efforts have been made and will continue to be needed to improve the workings of the judicial apparatus.

Recent developments include:

- the unification of district and town courts in five districts in Latvia to speed up court procedures;
- the approval, in March 1998, by the Cabinet of Ministers of a basic framework for the reform of the institute of court bailiffs, which transforms court bailiffs into an independent legal profession (the relevant legislation has still to be adopted).
- amendments to the law "On Judicial Power" and the law "On the Disciplinary Liability of Judges" which should result in a smoother rotation system for judges

between different courts and a more efficient procedure from removing them in cases of deliberate violation of the law or failure to fulfil their duties.

The status of the profession of judges and prosecutors needs to be substantially improved to attract and retain more qualified people and to increase the population's confidence in the court system. An increase in the level of salaries, better training opportunities in international law and in the *acquis communautaire* as well as improvements to the administration of the courts (e.g. improved training and equipment for clerks and assistants) will be necessary in order for top level lawyers to consider a career in the public sector. Even though there has been an improvement compared to previous years, in July 1998, 43 out of 370 judges posts remained vacant. It will also be important to reduce the time spent in pre-trial detention in prisons (see below under "Civil and Political Rights"). An upgrading of the profession of judge would also reinforce the independence of the judicial system and help safeguard it against possible corruption.

Despite the efforts which have been made, the length of court proceedings remains a concern.

Anti-corruption measures

Efforts have been made by the Latvian authorities and will continue to be needed to combat corruption, which remains an important problem in Latvia.

Measures taken include:

- the establishment in September 1997 of a Council for the Prevention of Corruption
- the adoption, in January 1998, of a national programme of urgent short-term measures, which so far has been partly implemented
- the adoption in March 1998 of a law on money laundering
- new provisions on the protection of witnesses and crime victims in existing laws
- the support by the EU of an anti-corruption project put forward by the Latvian authorities in the framework of the EU Catch-Up Facility³.

During 1997 Latvia signed the European Convention on Extradition, the European Convention on Mutual Assistance in Criminal Matters and the Convention on the Transfer of Sentenced Persons. Latvia has ratified the European Convention on money laundering.

It is too early to assess the effectiveness of these measures, and the situation needs to be followed closely.

1.2 Human Rights and the Protection of Minorities

³ Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparations in certain areas.

Latvia has already acceded to most of the major international human rights instruments. Since the publication of the Commission's Opinion in 1997, in December 1997 Latvia ratified the European Convention for the Prevention of Torture. Latvia has also ratified the 1951 UN Convention and its 1967 Protocol Relating to the Status of Refugees in 1997. The Framework Convention for the Protection of National Minorities and the European Social Charter have been signed but not yet ratified.

In October 1998 the Parliament amended the Constitution to include a new section outlining basic human rights. These were previously included in a separate law.

Civil and Political Rights

Basic civil and political rights continue to be respected in Latvia, even though prison conditions will need continued attention.

In June 1998, the Latvian Parliament rejected the President's proposal to delete the death penalty from the new Criminal Code. The Criminal Code will enter into force on 1 January 1999. However, in June in Strasbourg the Government signed Protocol no. 6 of the European Convention on Human Rights providing for the abolition of the death penalty. The protocol will be submitted to Parliament for its renewed consideration. In the meantime, the moratorium introduced by the President in September 1996 continues to apply.

Freedom of association and assembly continues to be respected. Numerous public meetings and political demonstrations have taken place during the last year without government interference. In the case of one pensioners' demonstration, on 3 March 1998, (which included a large number of Russian speakers) against the rising cost of living, the police dispersed the demonstrators since they were blocking one of Riga's main roads. No injuries were reported but the police action was criticised by the Russian authorities.

The prison situation in Latvia improved during 1997 but still needs considerable attention. Intensive reconstruction work on the prisons is on-going and in 1998 the Riga Central Prison and the prisons of Matisa and Jelgave were modernised. Nevertheless, the situation in some prisons remains substandard. There are not enough personnel and equipment for the large numbers of prisoners. Many prisoners are detained for a long time before being tried. Social rehabilitation programmes (in particular for juvenile delinquents) need to be introduced on a wider basis in the prisons. Faster trial for simpler cases and probation under strict conditions would probably help to ease the current pressures.

In June 1997, the Latvian Parliament adopted a Law on Asylum Seekers and Refugees, which aims at meeting international requirements in this field. The Refugee Affairs Centre in the Ministry of Interior has been established as a first appeal body in refugee matters. It took its first decision in accordance with the new law in May this year. The number of asylum seekers in Latvia has so far been limited.

A growing number of non-governmental organisations (NGOs) are devoted to research and advocacy on human rights issues, including prison conditions and women's and children's rights, and operate without government restrictions. Several organisations deal with issues of concern to local non-citizens and other non-ethnic Latvians, putting them to the courts and publicising them in the press. The EU's initiative for democracy and human rights actively supports NGOs working in this field in Latvia.

Economic, Social and Cultural Rights

Basic economic, social and cultural rights continue to be guaranteed in Latvia.

The right to strike is included in the "Constitutional Law". In April 1998 the Saeima adopted a new "Law on Strikes", which aims at regulating the rights and obligations of the parties involved in a strike in accordance with international law.

Minority Rights and the Protection of Minorities

The naturalisation procedure

The rate of naturalisation has continued to be slow. As noted in the 1997 Commission Opinion, this situation may be attributable to a variety of factors including the restrictions included in the 1994 Citizenship Law as well as certain advantages of not possessing Latvian citizenship. One of the inhibiting factors has been the "window system", which limited until 2003 the numbers of those who could apply for citizenship on the basis of age criteria and gave priority to younger age groups. As of 31 August 1998 only about 10.260 persons had been naturalised under the 1994 Citizenship Law. This means that of the 148.000 people eligible under the first three "windows" up to 1998 (20 years old in 1996, up to 25 years old in 1997 and 30 years in 1998), only around 6% have actually applied for citizenship. Since the publication of the Commission's Opinion (July 97-June 98), 3.669 people requested citizenship against 2.572 during 1996.

On 15 April 1998, the Government took a number of important decisions in order to speed up the citizenship and naturalisation procedures, in response to recommendations in the Commission Opinion and based on assessments by international organisation such as the OSCE. On 22 June, the Parliament approved the Government's proposal to abolish the naturalisation windows, to grant citizenship at birth to stateless children and to simplify the naturalisation procedures for persons over 65 years. The amendments approved by Parliament on 22 June were put to a referendum in October. In the referendum, 53% voted in favour of the liberalisation of the Citizenship Law.

The changes approved in the referendum are expected to facilitate an acceleration of the naturalisation process, which will allow for the further development of an integrated Latvian society. A last issue to be addressed in this context, concerns a further simplification of the citizenship tests on Latvian history and the constitution in

accordance with recommendations made by the OSCE. The Latvian authorities are currently preparing to simplify these tests further.

The granting of citizenship to stateless children (about 18.000 children) will mean that Latvia fulfils the internal obligations contained in the 1966 International Convention on Civil and Political rights, the 1989 Convention of the Rights of the Child and the 1961 Convention on the Reduction of Statelessness.

However, even when all legislative recommendations have been implemented it will still remain important to continue to distribute information on the citizenship requirements, since surveys indicate that many non-citizens are hesitant to apply for citizenship because of lack of information on the procedures. The Latvian Naturalisation Board is, with EU-assistance, currently establishing an information centre to ensure wider information on the requirements for obtaining Latvian citizenship.

Special passports for non-citizens

As of 20 August 1998, more than 40% of Latvia's permanent non-citizen residents (270.000 persons) have received special non-citizen passports. The expiration date of the old Soviet travel passport is currently 31 October 1998, but it will be possible to use this passport until the end of 1998 for returning to Latvia. The administrative procedures for issuing the special passport have been significantly improved and can now meet the demand. Given that the possibility to apply for citizenship has recently been opened up to all non-citizens, it would normally be expected that the applications for non-citizen passports will decrease. It should, however, be noted that travelling to Russia is easier with a non-citizen passports than with a Latvian passport (visa requirements).

Integration of minorities

In general, the rights of the Russian-speaking minority in Latvia (regardless of whether a person possesses Latvian citizenship or not) continue to be respected and protected. However, a number of areas were underlined in the Commission's Opinion in which non-citizens were treated differently from citizens. The Latvian authorities have significantly improved the situation in the following areas:

- In January 1998 the President promulgated a new "Law on Amnesty" which puts citizens and non-citizens on equal terms. In addition, in July 1998 a law was adopted which establishes an office for amnesty applications.
- In April 1998 the Government committed itself to abolish the remaining professional restrictions for non-citizens. Restrictions on non-citizens against working as fire-fighters, airline staff, pharmacists and veterinary pharmacists have already been abolished. The restrictions on becoming private detectives, armed guards and pilots remain but will be phased out.
- In May 1998 the regulations concerning the status of the unemployed were amended so that job seekers can now register with the State Employment Service (SES) without submitting a certificate verifying their knowledge of the state language or an education certificate. This also means that it is not necessary to demonstrate proof of knowledge of Latvian to obtain unemployment benefits.

Language training is an important instrument for the integration of the ethnic minorities.. Currently, 44% of the population has a language other than Latvian as a first language. The first phase of a Latvian language programme has already been successfully completed. Over the past two years, 2.700 minority teachers have been trained to be able to give Latvian language lessons and new handbooks and textbooks have been printed. Totally, about 12.000 adults and students have received Latvian language lessons through different types of courses. A number of international donors, including the EU, have contributed to this programme. However, there still remains a considerable shortage of teachers of the Latvian language.

The Latvian Government needs to continue and reinforce the Latvian language programme in order to accelerate the integration process. This is one of the key issues in the National Programme for the Integration of Society which is being developed. A first framework of this Programme was adopted on 29 September by the Government and distributed in society for debate. Subsequently, a full programme will be developed and adopted by Parliament. The National Programme is one of the results of the work of the Integration Council which was established in March 1998 by the Latvian Prime Minister.

The draft Language Law and the draft amendments to the Labour Code have been the subject of intense discussions during 1998. The draft amendments to the Labour Code, which required employers to terminate the employment contracts of employees who did not fulfil certain language requirements, were vetoed by the President and have not been resubmitted for consideration. The draft Language Law has not yet been finally passed, but the proposals have been made to modify it so as to remove

many of the earlier discriminatory provisions (such as the imposition of the use of Latvian language in the private sector). It remains to be seen if the final law will be in full compliance with international standards and OSCE recommendations.

1.3 General evaluation

Developments in Latvia confirm the conclusion of the Opinion that Latvia's institutions continue to function smoothly and that it fulfils the Copenhagen political criteria. Major progress has been made in dealing with weaknesses identified in the Opinion and Accession Partnership priorities, in particular as concerns the integration of non-citizens. Confirmation by referendum of the parliament's decision to end certain restrictions on citizenship brings Latvia into conformity with international standards and should facilitate the naturalisation process.

Continuing attention needs to be paid to public administration reform, strengthening of the judiciary, the fight against corruption and the promotion of Latvian language learning among non-citizens.

2. Economic criteria

2.1 Introduction

In its 1997 Opinion on Latvia's application for EU membership, the Commission concluded:

“Latvia has made considerable progress in the creation of a market economy”; it “would face serious difficulties in coping with competitive pressures and market forces within the Union in the medium-term”.

In examining the economic developments in Latvia since the Opinion, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion.

2.2 Economic developments since the Commission published its Opinion

The macroeconomic situation in Latvia has developed favourably since mid-1997. Economic growth has accelerated, mostly due to a sharp increase in fixed investment, as conditions for domestic lending have improved, and high levels of foreign direct

investment have flowed into Latvia. Furthermore, improved growth and lower interest rates have led to a consolidation of the fiscal position. Inflation also continues to decline. Monetary policy in Latvia is mostly focussed on maintaining the fixed peg to the Special Drawing Rights basket of currencies. One point of concern on the macroeconomic side is the size of the current account deficit. However, although large, this is mostly covered by increased inflows of foreign direct investment (FDI). The recent acceleration in FDI is in part related to the privatisation process, which continued apace over the period. The banking sector has also strengthened, and this improvement has been accompanied by a rapid expansion of the non-bank financial sector.

Macroeconomic developments

Real Gross Domestic Product registered high growth in 1997, at 6.5%, up substantially from the 3.3% recorded in 1996. The strong performance of both the service and industrial sectors has contributed to the acceleration of economic activity. On the expenditure side, growth in 1997 was primarily driven by investment which grew at 10.3%. Real GDP continued to grow strongly in the first half of 1998, by 6.5% year-on-year.

The recent strong recovery in investment has in part been facilitated by improved structural conditions for domestic lending in the Latvian economy. In particular the withdrawal of the government as a major borrower from the commercial banking sector has encouraged a reduction in interest rates, and led to a sharp growth in the volume of new bank lending; the overall level of credits grew by 74% in 1997, and a further 19% in the first quarter of 1998.

In 1997, the general government budget registered a surplus of 1.8% of GDP, while the government had planned for a small deficit. The higher-than-expected growth, an improvement in tax collection, as well as some underspending on much-needed infrastructure investment projects, contributed to the surplus. Moreover in recent years the Latvian economy has been in a virtuous circle whereby declining interest rates are leading to lower interest payments by the government and smaller fiscal deficits. This in turn has meant lower borrowing requirements of the public sector from the commercial banking sector through Treasury bills, and further possibilities for reductions in interest rates. In 1998, the budget has again benefited from strong revenues; it was in surplus at the end of July. In fact, the surplus has been large enough for the government to introduce amendments to the budget which permit additional expenditure.

Money supply in Latvia continues to grow rapidly; in the year to July 1998 broad money supply grew by 31%. This is in part due to foreign exchange transactions by the Bank of Latvia in order to maintain the country's currency peg in the face of substantial capital inflows, but also to an expansion of lending by the domestic banking sector. However, due to continued strong growth in money demand, this has not been a source of significant inflationary pressure. Moreover, wage dynamics and producer prices have been restrained to date. In fact, the main contribution to consumer price inflation has come from increases in administered prices. Inflation has continued to fall steadily since the middle of 1997 down to 5.9% in June 1998.

Latvia: Main economic trends		1994	1995	1996	1997	1998 latest	
Real GDP growth rate	<i>per cent</i>	0.6	-0.8	3.3	6.5	6.4	Jan-Jun
Inflation rate							
annual average	<i>per cent</i>	35.9	25.1	17.7	8.4	5.2	Jan-Sep
December-on-December	<i>per cent</i>	26.2	23.2	13.2	7.0	3.5	Sep-on-Sep
Unemployment rate, end-year							
ILO definition	<i>per cent</i>		18.9	18.3	14.4		
registered	<i>per cent</i>	6.5	6.6	7.2	7.0	7.4	Aug
General government budget balance	<i>per cent of GDP</i>	-4.4	-3.4	-1.1	1.8		
Current account balance	<i>per cent of GDP</i>	5.5	-0.4	-5.5	-6.3	-7.1	Jan-Jun
	<i>billion ECU</i>	0.2	0.0	-0.2	-0.3	-0.2	Jan-Jun
Foreign debt							
debt/export ratio ¹	<i>per cent</i>		31	28	27	33	Jun
gross foreign debt	<i>billion ECU</i>	0.3	0.5	0.6	0.7	0.5	Jun
Foreign direct investment inflow							
net inflow according to EBRD	<i>per cent of GDP</i>	6.5	4.0	4.1	6.3		
balance of payments data	<i>million ECU</i>	180	137	301	459	121	Jan-Jun

Source: Commission services, national sources, EBRD
¹ Gross hard currency debt as a percentage of exports of goods and services

The trade and current account deficits of the country remain large and continue to widen as growth accelerates. In 1997 the trade and current account deficits for Latvia amounted to 15.4% and 6.3% of GDP. In the first six months of 1998 exports grew by 23% and imports by 28% in local currency terms over the same period a year earlier, leading to a further widening of the trade deficit. Nevertheless, the high current account deficit is financed by capital inflows, and in particular by strong flows of FDI.

The official unemployment rate in Latvia has fluctuated around 7% since 1996 and was 7.4% at the end of August 1998. The unemployment rate measured according to the International Labour Organisation definition gives a better indication of the depth of the unemployment problem in Latvia, and of recent employment creation; it was 18.3% at the end of 1996, but fell to 14.4% by the end of 1997.

It is premature to assess the full impact of the deterioration of the economic situation in Russia on the Latvian economy, but it could potentially come through three different channels. Firstly, Russia is an important export market for Latvian merchandise, accounting for 16% of exports. In addition, Russia is an important source of transit trade. This channel could even be a positive influence if Russia seeks to export more through Latvia. Finally, Latvia has a high current account deficit, and

is reliant on inflows of foreign investment to finance this deficit. Given the current international investment climate the inflow of investment could be adversely affected.

Structural reforms

A deadline for the privatisation of 95% of the former state-owned enterprises was set for 1 July 1998. By 1 October 1998, 1039 of the 1097 enterprises allocated for privatisation since 1994 had been transferred to majority private ownership. Of the remaining 58 enterprises, privatisation regulations laying out the conditions of sale have been adopted for 20. The completion of the sales of some of the remaining large state enterprises could be difficult and could involve further delay.

So far, the uptake of shares in enterprises by voucher holders has been low. Even with a higher rate of uptake of shares by voucher holders, voucher privatisation still carries the risk that enterprises will have a diffuse and largely passive share ownership structure, which could mean that restructuring progresses more slowly. Secondary markets enabling the trade of small share holdings, and allowing a concentration in ownership, are important in mitigating any negative impact of voucher privatisation.

In 1996 and in 1997, foreign direct investment flows accelerated sharply. Much of this improvement can be related to the acceleration of the privatisation process. The largest recipient of FDI has been the transport and communications sector, which has accumulated 34% of the total stock of FDI. The manufacturing sector is the second largest recipient of investment (with 26% of the total stock), of which the food processing and chemical products sub-sectors were the most popular. The financial sector has accumulated 20% of the total stock.

In 1997 and early 1998, developments in the banking sector continued to be favourable. The profitability of the sector and its capital base increased, whilst the quality of loan portfolios improved. By mid-1998, there were 31 banks in operation, of which 25 were permitted to accept household deposits. Lending by commercial banks expanded extremely rapidly. Non-performing bank loans have declined recently, even in absolute terms, and by the end of the first quarter of 1998 they were only 8% of the loan portfolio.

Latvia: Main indicators of economic structure in 1997		
Population	<i>million</i>	2.5
GDP per head	<i>PPS-ECU</i>	5100
as % of EU-15 average	<i>per cent</i>	27
Share of agriculture in:		
gross value added	<i>per cent</i>	7.4
employment	<i>per cent</i>	18.3
Investment-to-GDP ratio	<i>per cent</i>	19
Gross foreign debt/GDP	<i>per cent</i>	17
Exports of goods & services/GDP	<i>per cent</i>	56
Stock of foreign direct investment ¹	<i>billion ECU</i>	1.0
	<i>ECU per head</i>	383
<small>Source: Commission services, national sources, EBRD ¹ FDI stock converted at end-1997 exchange rate of 1ECU=\$1.10421</small>		

The recent instability in Russia led to difficulties in some Latvian banks; one small bank was closed and one larger bank faced a run on deposits although the situation in this bank has since stabilised. The overall exposure to Russia of the Latvian banking sector is estimated at 8% of the banking sector's assets, with 3.5% of assets held in GKO's. Although the exposure is relatively high, it does not pose a systemic threat to the stability of the banking system.

There have been several developments in banking supervision over the last year. By April 1998, commercial banks had to comply with new standards of internal control, and they also face stricter disclosure requirements. Legislation on stricter capital adequacy requirements (forcing banks to take into account market and foreign exchange risk) is likely to be prepared by the end of 1998, and to be in force by the end of 1999. One of the key developments in the coming months will be the introduction by the Bank of Latvia of consolidated supervision of banks at the beginning of 1999.

The rapid expansion of the financial sector extends to non-bank financial institutions, especially leasing and insurance companies. A securities market law was passed in mid-1997 opening the way for an expansion of activities by investment firms and a deepening of the capital market in Latvia.

The Riga stock exchange has developed quickly, from a capitalisation of only 2.7% of GDP at the end of 1996, it has expanded to 6.3% of GDP by the end of 1997. Turnover is also increasing. However, since the first months of 1998, the value of shares on the Latvian market has been dogged by the turbulence on emerging markets, and by concerns about the impact of Russian instability on the Latvian financial sector.

2.3 Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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. The performance of a market economy is enhanced by macroeconomic stability and consensus about economic policy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

The prices of the majority of goods and services in Latvia are freely determined by market forces, and the liberalisation of the remaining regulated prices (22% of the Consumer Price Index basket) continues. Progress has been made in establishing cost recovery in the heat, gas and electricity sectors, with the introduction of new payment schedules and the reduction of the bad debt of the associated enterprises.

The trade regime in Latvia is very liberal in most areas. The main exception is agricultural products. Tariffs, including agricultural tariffs, continue to be reduced

through on-going amendments to the law on Customs Tariffs. Latvia was accepted as a World Trade Organisation member on 14 October 1998.

The establishment of a company in Latvia is relatively complicated. However, the authorities are taking measures to simplify procedures for registering a business, and in October 1997 the areas in which licenses are required were reduced. Work is also underway on a new commercial law, which should provide a clearer legal framework for entrepreneurs. Other important developments include the establishment of a mortgage register, which will enable enterprises to secure mortgages without taking the mortgaged items out of business activity. Administration and judicial support for bankruptcy and company laws are often inadequate, creating a degree of uncertainty about the scope of the law.

The completion of the privatisation process will help considerably with the clarification of property rights. The majority of the former state-owned enterprises are now in private hands; the private sector accounts for 62% of GDP, and 66% of total employment. Apart from the Latvian railways, airport and postal system, for which privatisation is not intended in the foreseeable future, about 40 privatisation cases remain to be completed. Four of these concern large companies (more than 500 employees); they are all in the infrastructure or utilities sectors, and their privatisation is likely to be more difficult. In some of these cases there has been some reluctance to use privatisation methods which would ensure the establishment of competition in the sector concerned. Substantial stakes of the enterprises already considered to be privatised were allocated for privatisation by voucher. Moreover, there are many minority stakes which remain to be privatised.

Changes to legislation in May 1997 allowed for the liberalisation of the market for land. The land and property register also continues to be developed, and although the privatisation and registration of land have accelerated recently, these processes are not yet complete.

The Latvian authorities have made considerable progress in establishing the institutions of a market economy. Recent changes have included the establishment of a Competition Council and Competition Board. These bodies started work at the beginning of 1998, and it will take some time before it can be seen how effective they are. One of the main outstanding areas to be tackled is regulation of the public utilities; the authorities are currently preparing legislation for a combined regulatory authority for the main public utilities. Nevertheless, regulation remains limited, and, even in those sectors where tariff councils exist, these institutions are sometimes weak and subject to external pressure.

The financial sector and the legislative framework governing the financial sector are both developing rapidly. The banking sector continues to strengthen, and is increasingly fulfilling its role as a financial intermediary. Nevertheless, the overall level of financial mediation in the economy remains low; credit represented only 11.7% of GDP at the end of 1997, and the loan/deposit ratio was only 46%. At present the quality of the loan portfolio is improving, but it will be important to ensure that the pace of credit growth does not lead to deterioration in the quality of the loan portfolio.

Banking supervision and prudential regulations are generally of a high quality. The non-bank sector is developing rapidly, and the financial sector as a whole is deepening. However, supervision of the non-bank financial sector is still weak and the government's plans to establish a single regulatory authority for the whole financial sector may take some time to be implemented. This new institution will also need time to gain experience and work effectively. A Stock Market Commission has been established to regulate the Riga stock exchange.

Important progress has been made in establishing a stable macroeconomic environment in Latvia. Over recent years, the authorities' commitment to prudent monetary and fiscal policies has considerably improved the climate for economic decision making and investment. The main risk on the macroeconomic side is that at some point in the future, it may become difficult to finance the high and rising current account deficit. Although trade is being gradually reoriented towards the West, Latvia still remains heavily dependent on its eastern neighbour Russia for energy imports. Russia is an important market for its exports, which could be an additional risk for Latvia's external accounts. However, Latvia also benefits from transit trade from Russia, which could increase in the future.

The desire to integrate into the economic and security structures of Western Europe has created a consensus for reform in Latvia. In particular, the programme for accession to the European Union has led to an acceleration of reforms in a number of areas. Latvia is also committed to a macroeconomic programme with the International Monetary Fund. The authorities have made great progress on improving the consistency of economic policy making through the adoption of a medium-term strategy. The Latvian authorities have been working with the European Commission on the establishment of a Joint Assessment of economic policy priorities, based on their medium-term strategy, which is in its final stages.

Latvia has continued to make steady progress in its programme of economic reforms and in the creation of a functioning market economy. However, many important reforms are in progress, or have only recently started to be implemented, which makes it difficult to give an overall assessment of the effectiveness of the reforms and of the institutions that have been created. The remaining gaps in the regulatory and supervisory framework, especially in the financial sector, need to be filled and the legal environment for enterprises simplified.

The Capacity to Cope with Competitive Pressure and Market Forces within the Union

Latvia's ability to fulfil this criterion depends on the existence of 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 prior to accession.

Evidence of this is provided by both the volume and the range of products traded with EU Member States.

Latvia continues to make strong progress on the creation of a fully functioning market economy. This should improve Latvia's prospects for developing the capacity to cope with competitive pressures within the single market. Enterprise privatisation and restructuring should lead to a more flexible enterprise sector, which is more responsive to market conditions.

In recent years there has been a marked improvement in macroeconomic stability, as well as greater consistency in the direction of macroeconomic policy. These have contributed to creating an environment more conducive to domestic investment, as well as attracting higher levels of foreign direct investment. Investment as a share of GDP is growing rapidly, but the share still remains relatively low.

Latvia has been successful at attracting foreign direct investment flows. However, a significant proportion of the FDI accumulated has been in recent years, and these inflows need time to have a significant impact on the reorientation of the economy. Continued strong inflows of FDI will help improve the competitiveness of Latvian industry through the introduction of new management techniques and new technology.

The completion of the privatisation process is an important step in preparing the Latvian economy for competitive pressures within the internal market. However, the relatively recent privatisation of many enterprises, especially where it concerns small and medium-sized enterprises, means that enterprise restructuring still has some way to go. The government has launched a comprehensive SME development programme, one pillar of which establishes the Latvian Guarantee Agency to provide guarantees for loans to SMEs. Once operational, the Guarantee Agency should go some way to improving the access to financing of the sector. This may also remove some of the remaining inertia in the creation of new enterprises.

Latvia has a relatively well-educated population. However, large numbers of workers will need to be re-trained and re-skilled before they can be productively re-employed, especially as new technologies and working practices are introduced into the economy. Active labour market policies are required, including an extension and improvement of existing retraining programmes, especially for the growing numbers of long-term unemployed.

Higher investment in infrastructure is also required in Latvia, particularly in rural areas. The government has acknowledged the need for greater infrastructure investment, and has been budgeting for higher investment spending, but has so far undershot its spending targets. In addition, the government is launching a comprehensive regional development programme focused on the economic regeneration of rural areas through a combination of infrastructure investment and incentives to business, but many plans are still at initial stages.

The structure of the Latvian economy has continued to evolve over time towards the one seen in the more advanced industrialised economies. In particular, the agricultural sector is declining in relative importance, and the service sector accounts for a larger share of output. The service sector has been one of the most dynamic parts of the

Latvian economy in recent years, and constitutes an important share of exports (around 30%). In this respect, Latvia benefits both from its unique geographical location as a transit route between East and West, and the good infrastructure of its ports, railway lines and pipelines. This is an important source of competitiveness for the Latvian economy. Moreover, both the ports themselves and the transport routes servicing these ports are being upgraded.

Latvian merchandise exports have continued to grow rapidly in local currency terms in recent years. There is also an increasing trend towards light processing of exports, and in recent years several small but dynamic export sectors have emerged. Trade with the EU is growing and accounted for 52% of exports from Latvia and 54% of imports to Latvia in the first quarter of 1998. However, Latvia continues to have a relatively narrow export base, and the most important export sectors continue to be exports with low value added such as textiles and wood products. On the other hand, the main category of imports is machinery and mechanical appliances, accounting for around a quarter of imports from the EU, indicating that Latvia is upgrading its production capacity by importing capital goods.

Many of the conditions necessary for the acceleration of restructuring in the Latvian economy, which would lead to sustained increases in competitiveness, are now in place. Much has been done to achieve sustainable macroeconomic stability and to implement the reforms needed to create a market economy. Moreover, investment in Latvia has increased, and privatisation is progressing. Continued maintenance of macroeconomic stability and sustained progress with the reform programme would enable Latvia to make the progress necessary to cope with competitive pressures and market forces within the Union in the medium term.

2.4 General evaluation

Latvia has continued to make progress in establishing a market economy and is well on the way to being able to cope with competitive pressure and market forces within the Union in the medium term.

Since the Opinion, the macroeconomic situation has improved considerably. Latvia has continued to make rapid progress in establishing the legal framework and institutions required in a market economy, although many of these institutions are new. Privatisation has continued, and the conditions for accelerated enterprise restructuring are now broadly in place, including increased foreign direct investment inflows. Moreover, recent legislative changes have opened the way for a deepening of the financial sector. Provided that Latvia continues with its reform agenda, it should be able to make the progress necessary to cope with competitive pressure and market forces within the Union in the medium term.

The authorities should give priority to filling the remaining gaps in the regulatory and supervisory framework, especially in the financial sector. It will also be important to simplify the legal environment for enterprises, and to ensure that the remaining privatisations are completed. Priority should also be given to maintaining macroeconomic stability, in particular through policies aimed at reducing external imbalances by encouraging increased domestic saving.

3. Ability to Assume the Obligations of Membership

This section aims to up-date the Commission's Opinion of 1997 as concerns Latvia's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1997 Commission's Opinion on Latvia's application for EU-membership, the Commission concluded that

“Latvia has made some progress in transposing and implementing the *acquis* relating particularly to the single market. With considerable further effort it should become able to participate fully in the single market in the medium term. Particular efforts, including investment, will be needed to apply the *acquis* fully in sectors such as environment and agriculture.”

The presentation below of the different subject matters follows the same structure as the 1997 Opinion, but the general descriptions of each sector have been omitted. Instead, the report focuses on the progress made since July 1997. Under each heading decisions and the progress in implementing and enforcing the legislation are reported.

3.1 Internal market without Frontiers

As explained in the Opinion, the Union's internal market is defined in Article 7a of the Treaty as an area without internal frontiers in which the free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislations but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

General Framework

Certain framework legislation needs to be in place in order for the economy to operate on the basis of common rules. The progress achieved in Latvia in establishing such a general framework is as follows:

In the field of public procurement, Latvia proceeded with the implementation of the 1997 public procurement law, in particular through the adoption of EC compatible secondary regulations concerning tender procedures. Latvia has taken the necessary steps to become a contracting party to the World Trade Organisation Agreement on Government Procurement.

A new law on copyright and neighbouring rights, aiming at compatibility with the intellectual property rights *acquis*, has not yet been adopted. A law on semiconductor products came into force in March 1998. Latvia will need to strengthen its efforts to ensure effective enforcement of this legislation at the borders.

With the entering into force of a new law on 1 July 1998 significant progress towards alignment with the first, the second, the eleventh and the twelfth company law directive has been achieved.

In accounting, the shortage of qualified auditors continues to pose problems on the implementation side. An accountants/auditors training center has been established to address this problem.

Legislation on protection of personnel data has not yet been adopted.

The Four Freedoms

Free Movement of Goods

With regard to standards and certification, the legislative framework for the New Approach is in place with laws on conformity assessment, manufacturers' liability and product safety having been adopted. The law on conformity assessment should nonetheless be modified in 1998 to achieve full compatibility with EC principles. Negotiations on a Protocol European Conformity Assessment (PECA) with the EU started in 1998. There has been only limited progress on the transposition of harmonised European standards.

The strengthening of the standardisation, accreditation and conformity institutions and laboratories will be Latvia's main challenge in the task of making the quality system fully operational. Another challenge for the near future will be to increase the technical and financial participation of Latvian industry in standardisation activity.

As for sectoral legislation, the directives on machines, construction products, electromagnetic compatibility and low voltage have already been aligned. Framework legislation on foodstuffs and regulations on labelling, extraction solvents, hygiene and flavourings have been adopted and entered into force. The framework law on chemicals substances and products has been adopted and will enter into force on 1 January 1999. A regulation on classification, packaging and labelling of chemical products has entered into force. Continued progress has been made in the area of pharmaceuticals, in particular through the adoption in 1997 of a framework law on pharmaceutical activities as well as of a law on narcotics and psychotropic substances.

Free Movement of Capital

Latvia continues to have a liberal regime for capital movements. It fulfils the relevant EU requirement, contained in Article 67 of the Europe Agreement, except for foreign direct investments (FDI) in logging, radio, television and gambling activities, where foreign investors can not own more than 49% of the capital.

Free Movement of Services

Banking sector. Further progress in the legislative alignment has been made in the banking field. A law on Deposit Guarantee Schemes has been adopted. Legislation on annual and consolidated banking accounts (already adopted) is being progressively implemented. The law on credit institutions provides for the establishment of consolidated supervision of credit institutions by January 1999.

In the field of payment systems, efforts have been made but should be continued in view of the implementation of the real-time gross settlement system. A new regulation on credit transfers covering large and small value payments will enter into force in November 1998 transposing the principles of the directive on cross-border credit transfers. Banking supervision activity of the Bank of Latvia has increased. 199 on-site inspections have taken place and 3 bank licences have been removed since January 1997.

In the field of securities a Law on Investment Companies has entered into force with a view to aligning the Latvian legislation with EC rules governing collective investment schemes. The Securities Market Commission, supervising the securities market, has since 1997 granted 12 licenses to legal entities and 362 to individuals (brokers). During this period, the Securities Market Commission carried out 69 inspections in banks and brokerage companies.

Latvia has recently adopted laws on insurance companies and their supervision and on insurance contracts which are in line with Community legislation. Since 1 July 1998 the inspection of private pension funds has been added to the competence of the State Insurance Supervision Inspectorate. Supervision in the insurance sector needs to be strengthened.

Free Movement of Persons

a) Free Movement of persons, freedom of Establishment and Mutual Recognition of Diplomas and Qualifications

No new legislation has been adopted since the Opinion.

b) Abolition of checks on person at internal frontiers

The participants in the Baltic consular service consultations agreed in January 1998 on the need to introduce a joint information system based on the model of the Schengen information system. This will increase the effectiveness of cooperation in

migration cooperation in migration control and the issuing of entry documents (visas and resident permits).

Competition

As regards anti-trust legislation, the new Competition Law came into force on 1 January 1998. The related secondary legislation has either been adopted or is under preparation. Latvian competition law is now closely aligned with that of the EU. Gaps which remain in the current legislation concern notification of mergers.

The Competition Council, together with its executing body, the Competition Bureau, has acquired experience in implementing the new law. The Council has taken 37 decisions on cases. 16 are still under investigation. Through the establishment of the Competition Council, Latvia has sought to increase the level of independence of the monitoring authorities responsible for anti-trust issues. The major challenge now is the proper enforcement of the competition law. The authorities lack experience in undertaking on-the-spot investigations.

Latvia has adopted a law on state aids. The law incorporates basic EU policy principles. The 1997 Annual Report on State aid granted in Latvia was published and submitted to the Commission in July 1998. The report broadly follows the methodology and the presentation of the Commission's survey on state aid in the Union. The report points to the need for a review of certain existing schemes in relation to their compatibility with the Europe Agreement

The newly established State Aid Surveillance Commission is responsible for the implementation of state aid rules and has extensive powers to carry out its control functions.

Conclusion

Progress has been made towards meeting the relevant short term priorities of the Accession Partnership in the areas of financial services and free movement of goods. Progress has been made in the area of anti-trust and State aid legislation.

In contrast, in other key internal market areas, progress has been limited. In the field of state aid, efforts should be made to create full transparency in the granting of state aid by establishing a comprehensive and up-dated state aid inventory.

Concerning implementation and enforcement, Latvia has an administrative infrastructure which works satisfactorily in some fields (e.g. standards and certification, competition and state aids, supervisory structures in the banking sector, public procurement enforcement). Major efforts still have to be made with regard to the enforcement of the protection of copyrights, border enforcement and personal data protection. The supervision of the insurance service sector needs to be strengthened. The private sector needs support to assume its responsibilities in the standards and certification area.

3.2 Innovation

Information society

Latvia participates in the joint High-Level Committee on Information Society and actively supports the development of the information society.

Latvia is modernising its legal framework for information and communication technologies.

Two programmes concerning information technologies have been launched - "Implementation of information technologies in education" and "Computerisation of the education system". It is foreseen in law that by 2003 all general and professional educational facilities in Latvia will offer a computer class and provide a common network and access to Internet.

Education, training and youth

Latvia is continuing its efforts on educational reform. In 1998, there was an increase of around 9% in educational expenditure in the state budget. No progress has been made in adopting legislation on mutual recognition of professional qualifications.

In 1998 Latvia started participating in the SOCRATES, LEONARDO DA VINCI and YOUTH FOR EUROPE programmes.

Research and technological development (R&TD)

Latvia has officially asked to start the negotiations for the full association with the 5th Framework Programme in February 1998. Three rounds of exploratory talks aiming at preparing the negotiations have already taken place.

The role of Research and Technological Development for strengthening industrial competitiveness is mentioned in the National Programme for the Adoption of the *Acquis*.

Telecommunications

No new laws have been adopted regarding liberalisation of the telecommunications sector, but a telecommunications sector policy was adopted by the Government in August 1998. According to this Policy as well as the commitments Latvia has made within the WTO, the monopoly period will be brought back from 2013 to 2003. The current monopoly provider, Lattelekom, is 51% state owned and 49% foreign owned.

A Telecommunications Standardisation Technical Committee has been recently created to implement European telecommunications standards and hence facilitate reliable interaction between networks. Certification procedures for telecommunications and radio communications equipment were revised in August 1998 to comply with the requirements of Community directives and to facilitate market development.

The above mentioned decision to reduce the monopoly period to 2003 means that some progress has been made in aligning to Community requirements. Further effort is needed in the legislative field to bring Latvia fully in line with the *acquis*. In particular, it must be ensured that the responsibilities of the regulatory bodies are clearly independent from those of the telecom operators in accordance with EU requirements. Considerable investment must be made in infrastructure and installations for telecommunication services to reach EU standards.

Audio-visual

Latvia has ratified the European Convention on Transfrontier Television. A broadcasting law was adopted very recently which aims to bring Latvian law into line with the television without frontiers directive. This new law is being assessed. Latvia needs to establish a precise time-table for legislative alignment. Latvia's commitment in the context of its WTO accession to align to the *acquis* is positive.

The independent regulatory body, the National Radio and Television Council, (NRTVC), which issues broadcasting licences and monitors observation of the laws and regulations operates effectively.

Conclusion

Latvia has continued to make efforts in the field of information society, education training and youth. Attention has been given to research and technological development in the Latvian National Programme for the Adoption of the *Acquis*. Further efforts are needed to align telecommunications legislation.

3.3 Economic and fiscal affairs

Economic and monetary union

Latvia has made some progress in its preparations for joining the Economic and Monetary Union.

The Law on the Bank of Latvia was recently changed to prohibit the granting of short term credits to the government.

Taxation

The Latvian authorities have continued to amend the VAT legislation. The latest changes, which entered into force in January 1998, include the introduction of a special scheme for second hand goods, the abolition of discriminatory measures against imported goods (newspapers and magazines), the introduction of a refund scheme for foreign tourists and the abolition of some limitations on the deduction of input VAT. Further alignment is needed including that related to the definition of the scope of exempt transactions and the establishment of a refund scheme for foreign taxable persons who are not established in Latvia.

Substantial further efforts are still required. Even though Latvia has continued reform of the tax administration, in line with the short term Accession Partnership priorities, further improvements in administrative capacity relating to the implementation of the Community *acquis* are necessary.

In January 1998 a new law on excise tax on mineral oils came into force, which is broadly in line with Community requirements. It sets up a warehousing system for oils, and provides for the Community minimum rates to be reached by 2001.

Latvia still needs to bring its excise duties on tobacco and alcoholic drinks into conformity with Community requirements.

The State Revenue Service in Latvia includes both the customs board and the tax administration. A modernisation of the taxation units is currently taking place, similar to the measures that have already been undertaken in the customs administration. A number of common functions for customs and tax services will be integrated. Modernisation has already started to pay off through an increase in tax revenues in 1997.

Latvia has continued to conclude bilateral tax conventions with EU Member States and now has such agreements with most of these countries.

Conclusion

Latvia has continued to align its legislation but further efforts are required to strengthen administrative capacity. On excise alignment is still needed on tobacco and alcoholic drinks.

Statistics

A new law on statistics entered into force in December 1997. It gives the Central Statistics Bureau (CSB) the status of a Government agency subordinated to the Ministry of Economy and has brought about progress in aligning Latvian legislation with EC rules, practices and classifications. However, the transparency and confidentiality provisions of the law still fall short of EU standards and practices. In the process towards full alignment the following issues will require particular attention : industrial products classification, business and agricultural registers, external trade statistics, public debt and deficit statistics, agricultural statistics and national accounts.

The administrative structures required to implement the *acquis* in statistics are largely in place. However, cooperation and coordination between the CSB and other institutions, including the various registers, still need to be improved.

3.4 Sectoral policies

Industry

A horizontal industrial competitiveness policy has been gradually developed in Latvia through several governmental programmes (e.g. on small businesses, quality assurance, market surveillance, foreign trade, regional development and improvement of competitiveness in the agri-food sector).

Latvian industrial policy has not yet been defined explicitly in a specific governmental document. The main objectives, though, are laid down in the mid-term economic strategy for the period 1998-2003. The Ministry of Economy is developing an industrial policy strategy which should facilitate increased efficiency of the various instruments developed to support the industrial transformation process, provided that the Ministry has the necessary mandate to implement decisions related particularly to competitiveness and industrial restructuring.

The Latvian approach to industrial policy is in general compatible with EU policy.

Positive industrial and economic performance suggests that the government's strategy to create a market-based business environment is proving successful. In particular, since last year, there have been significant increases in industrial output, exports of

industrial products, labour productivity as well as the volume of productive investments to the manufacturing sector (for further details see Chapter 2. Economic criteria). The main challenge lying in front of Latvia in the industrial sector is the enlargement of its industrial and export base through continued increases in productivity. This would be achieved by improving the value added of production at competitive costs and would require maintaining the FDI inflows to the manufacturing sector as well as adequate human and financial allocation of resources to education and labour market policies. The Latvian authorities have already made significant progress in developing an EU compatible system for quality management. They should also make sure that the industry takes over full responsibility for the conformity of their products, which will allow them to acquire important skills to compete on the internal market, both before and after accession.

Conclusion

The industrial policy under preparation needs to be adopted with a view to promoting industrial restructuring and competitiveness.

Agriculture

Evolution of the agricultural situation

Following the major drop in farm output in the first years after independence, the level of total agricultural production stabilised in 1997, due to a rise in crop output. The downward trend in animal production continued for the eighth consecutive year. The relative importance of agricultural production in the Latvian economy is declining: the share of primary agricultural production fell from 7,6 % of GDP in 1996 to 6,9 % in 1997. The share of the food processing industry of GDP in 1997 was 6,8 %.

The share of agricultural trade in total trade remains significant. In 1997, agricultural exports amounted to 14,5% of exports, while imports of agricultural products were 15% of total imports. There was a deficit in agricultural commodity trade in 1997.

80% of the agricultural land is in private hands. 47% of agricultural land is used by large-scale private farms, but the restitution of private land to original owners has also led to the creation of a large number of family farms of small size and uncertain viability. By 1 February 1998, only 55% of private land (3,63 million ha) was registered in the State Land Cadastre and 41% in the Legal Register. The delays in processing land titles have seriously constrained the development of the land market, hampering structural adjustments.

Agricultural policy

Trade restrictions in the agricultural area have been progressively removed. In accordance with WTO regulations, quantitative trade restrictions on sugar, cereals and cereal based products have been abolished and the licensing procedure is now automatic.

The 1996 “Law on Agriculture” is being implemented with the aim of improving the efficiency of farm structures and developing rural areas. The agricultural budget increased 33 % compared to 1997. Support programmes are now geared towards preparing farming structures for integration into the EU and facilitating the diversification of the rural economy.

Privatisation has advanced in the food processing industry, but low capacity utilisation, obsolete technology and low profitability remain important constraints in establishing a sustainable and competitive primary processing industry. The dairy and the milling industries have experienced increased concentration and specialisation resulting in improved competitiveness. The restructuring of the meat-processing sector is lagging behind.

Progress has been made in adopting and implementing veterinary and phytosanitary legislation. Laws were adopted in 1998 which provide the basis for the implementation of an animal identification and registration system in accordance with EU requirements. A plant quarantine and organism surveillance programme has been initiated, and a network of modern animal disease diagnostic and production quality conformity laboratories is being established. Regulations on veterinary and phytosanitary control of vehicles and loads as customs checkpoints and rules on border sanitary inspections have been passed.

Establishments are being upgraded to meet EU standards. A number of dairies, fish processing enterprises and refrigerator ships are licensed to export their production to the EU. However, a concerted effort is needed to bring small holdings under general veterinary surveillance.

The State Veterinary Service, State Food Quality Inspection and State Grain Inspection have been established under the auspices of the Ministry of Agriculture, creating a coherent institutional framework for the implementation of the veterinary and phytosanitary legislation. The Sanitary Border Inspection Service established in 1997 carries out veterinary, phytosanitary and sanitary hygiene controls at the state border.

Conclusion

The Opinion and the Accession Partnership draw attention to four areas where particular efforts were needed; legal approximation, implementation of veterinary and phytosanitary requirements, the strengthening of administrative capacity and further restructuring of the agro-food sector. As outlined above, some progress has been achieved in all of these areas.

Fisheries

With a view to ensuring development of the fisheries sector and further structural adjustment, the programmes “Baltic Sea and Coastal Fleet Development Program” and “Fish Industry Development Program” were adopted by the Government in July 1998. They aim at the approximation of legislation, the development and

maintenance of international cooperation and the modernisation of structures in fisheries and fish processing.

Energy

The Latvian Government adopted in September 1997 the National Programme for Energy till 2020 as well as policies on the power sector and the heat sector. The Latvian Energy Law entered into force in October 1998. It aims at increasing competition in the sector and addresses pricing and tariffs, third party access, emergency planning, conservation and environmental protection.

Privatisation of Latvijas Gaze is proceeding. However, the privatisation of the state-owned energy company, Latvenergo, stalled pending the parliamentary elections.

Natural gas price and tariff policy was changed on 1 January 1998 allowing for a more flexible pricing system for industrial users. Electricity prices have increased bringing them closer to cost recovery levels.

Latvia continues to give priority to regional energy cooperation in the Baltic Sea/Nordic area. The further development of gas storage facilities and studies on integration of the Baltic gas networks with Western and North European networks are important in this context.

With a view to the *acquis* requirement to hold emergency oil stocks for 90 days, the Latvian Government has made storage a condition of granting licences to commercial energy companies. More remains, however, to be done to achieve full alignment with the *acquis* in this area.

Latvia has taken steps to improve energy efficiency by establishing an energy efficiency foundation which will operate the Energy Efficiency Fund. However Latvia has not proceeded far enough as regards the *acquis* on energy efficiency.

The only nuclear research reactor in Salaspils was shut down in June 1998 and decommissioning continues. Latvia became a member of the Nuclear Suppliers Group in 1997.

Although the Saeima approved the concept of a future “superregulator” covering energy, telecom and other utilities (excluding water and heat) in June 1998, its establishment may take time. An improved regulatory capacity is essential for Latvia’s integration into the internal energy market.

Conclusion

Good progress has been made in legislation and regulatory structures. As noted in the Opinion, further work is needed to prepare the internal energy market including the adjustment of monopolies, energy pricing, access to networks, building up of oil stocks, energy efficiency and environmental norms.

Transport

Latvia has made considerable progress in approximating its transport legislation to EC legislation. These activities are based on the National Programme for Transport Development, which has been adjusted to encompass the priorities of the Accession Partnership.

- Road transport: By the end of 1998 about 90% of the road transport *acquis* will have been transposed into national legislation, including directives concerning weights and dimensions and access to the profession. Important legislation such as that on market access, drivers' licences, technical inspections, safety belts, has already been implemented.
- Railways: In April 1998, the Saeima adopted a comprehensive new Railways Code aiming at taking over the railway *acquis*.
- Maritime transport: Latvia is progressively improving its maritime safety by harmonising the requirements concerning Port State Controls and joining the basic international conventions on maritime safety and pollution prevention. In 1998, the privatisation of the largest Latvian shipping company began.
- Aviation: Latvia has already harmonised substantial parts of its legislation with the aviation *acquis*, including such important parts as the technical rules on the basis of the Joint Aviation Regulations.
- Infrastructure: Latvia is improving its east-west transit links, following the priorities of the Accession Partnership and National Programme for the Adoption of the *Acquis*, and in close cooperation within the Transport Infrastructure Needs Assessment (TINA). It is further modernising railways link.

The Railway Administration and the Railway Technical Inspectorate will be established in 1999 according to the new Railway Code. The maritime and port administrations have strengthened their activities and are helping to improve maritime safety performance. In road transport, the regulatory and technical framework needs to be properly implemented to ensure that EC requirements are fully met. Considerable efforts are still needed to improve road safety.

Conclusion

Latvia has continued its ambitious programme of transposing and implementing effectively the transport *acquis* in all areas and has set clear targets for the next few years. The administration is starting to develop satisfactory enforcement capacities.

Small and medium-sized enterprises

A network of business advisory centres has been established to support SME development. In addition, Business innovation centres are providing support to technology-oriented SMEs and promoting the transfer of new technologies. A Latvian Guarantee Agency was set up in January 1998. Latvia has been invited to participate in the Third Multiannual EU Programme for SMEs (1997-2000).

3.5 Economic and social cohesion

Employment and social affairs

The official unemployment rate in August 1998 was 7,4% (14,4% according to ILO methodology) with substantial variations by regions (from 3% in Riga to 29,5% in Rezekne district) and with a higher rate for women.

The new Latvian labour market policy includes professional training and retraining of the unemployed, job centres, special labour market programmes for unemployed having fewer opportunities to compete and for correcting regional imbalances.

Information technology has been developed to establish an information network for all 27 regional branches of the National State Employment Service. In 1997, 49,9% of all those unemployed who have had professional training and retraining managed to find work.

No new legislation has been adopted in the field of health and safety in the workplace.

Latvia has reached an agreement with Sweden on medical insurance during temporary stay and with Ukraine on cooperation in the field of social insurance.

Present legislation prohibits direct or indirect discrimination on the grounds of gender, but awareness of the importance of equal opportunities is still low. The new Labour Code should include provisions in this area in line with the *acquis*.

Conclusion

Social reforms and in particular improvements of the public health system need to continue. Occupational health and safety is an area where little progress has been achieved and where efforts should be intensified. Continued institutional strengthening of the employment services and labour inspectorates is also vital.

Regional policy and cohesion

The Opinion concluded that Latvia would, in the medium term, be ready to participate in EU structural policy provided progress was achieved in strengthening the legal, institutional and budgetary structures in this field.

In January 1998, the Government adopted the "Concept of Regional Policy" which consists of objectives and basic implementation procedures for Latvia's regional policy. In May 1998, legislation was adopted with the aim of accelerating the development of regions of special concern. It provides a legal basis for state support to the regions and includes criteria for identifying targeted regions, financial instruments and cooperation between central and local authorities. A Regional Fund has been established to promote entrepreneurial activity in the assisted regions. However, its financial resources are still limited.

A law on Development Planning has been adopted and will enter into force on 1 November. It deals primarily with spatial planning, but provides also the basis for development planning at regional and district level.

In the institutional field, Latvia has made some progress. The ministerial structure remains complex, but the tasks of the ministries concerned have been largely clarified. Inter-ministerial coordination has been improved through the establishment of the Regional Development Council which is co-ordinating regional development matters at central, regional and local government levels. A unified system for the monitoring and control of regional policy projects still needs to be developed.

Conclusion

While some problems remain, notably as regards financial procedures and ministerial responsibilities, Latvia has achieved significant progress in developing the capacity to participate in EU structural policy in line with the short term priorities of the Accession Partnership.

3.6 Quality of life and environment

Environment

Since 1997, Latvia has adopted a significant number of legal acts in the environmental field with a view to aligning its legislation with the *acquis* including the environmental impact assessment directive, the access to environmental information directive, the bathing water, drinking water and surface water directives and most of the radiation protection directives. If the pace of transposition recorded in 1998 is maintained, Latvia's own target of full transposition of the *acquis* by the end of 2002 appears ambitious but feasible.

Inter-ministerial cooperation has improved, with EU Integration Working Groups representing all involved ministries, as well as other institutions, having been established for the main areas of legislation. There is still however a need to enhance the skills and institutional capabilities of local authorities. Latvia's Regional and Environmental Board's regional inspectors need support particularly in licensing and enforcement and the ministerial laboratory system for the management of sampling and analytical equipment needs strengthening.

As recommended in the Accession Partnership, Latvia is currently developing directive-specific implementation strategies for the Seveso, hazardous waste and solid waste management directives. Latvia is also developing implementation programmes related to individual legal acts as regards Genetically Modified Organisms, Good Laboratory Practise Directives and the noise Directives in cooperation with the two other Baltic States.

Conclusion

Latvia has made progress towards meeting the relevant short term priorities of the Accession Partnership, in particular as regards legal transposition. However, efforts are still needed in the air, waste and waste water sectors and to develop directive specific implementation programmes. Latvia should further concentrate its efforts on reinforcing the monitoring infrastructure in the air and water sectors as well as on strengthening capacity at local level. The levels of private and public investments to meet the *acquis* in the environmental field needs to be further increased in cooperation with the International Financial Institutions.

Consumer protection

Legislation which entails the transposition of Community directives concerning unfair contract terms, doorstep selling, timeshare properties, distance selling and consumer credit has not yet been adopted by Parliament.

The Consumer Rights Protection Centre, established in May 1998, is the main institution responsible for supervision of legislation in this field.

Only a limited degree of transposition has been achieved. Improvements have been made to the institutional structure but it still needs reinforcement. The role of

consumer organisations is still limited by the lack of resources and increased financial support is needed.

3.7 Justice and home affairs

In its Opinion in July 1997 the Commission broadly identified serious gaps in Latvian law, institutional shortcomings, and a lack of resources and experienced staff. It also drew the country's attention to the weakness of its system of border management.

Immigration/border control

Since July 1997, bilateral agreements abolishing visas have entered into force with Andorra, Liechtenstein, Malta, Norway, Finland, Switzerland and Sweden. A similar agreement has been signed with Slovenia. Agreements on the readmission of illegal immigrants have been signed with France, Italy, Liechtenstein, Norway, Switzerland and Ukraine, and more are being negotiated with Belarus, Belgium, Luxembourg, Netherlands, Germany and Croatia.

The Border Guards Act came into force on 1 January this year. The force becomes an independent body and will no longer use military conscripts. Training has been reformed, but further improvements are needed. The establishment of an efficient system of control on Latvia's eastern border has only just started and substantial efforts will be needed in this field, including the installation of modern communications networks, properly equipped checkpoints and improved mobile patrols. To meet EU standards, either responsibility for maritime borders needs to be shifted from the navy to the Border Guards or the navy must be given the proper authority and training to carry out border controls (e.g. asylum, immigration).

Asylum

The Asylum Seekers and Refugees Act came into force in January. The 1951 Geneva Convention on the Status of Refugees and its 1967 Protocol were ratified in June 1997 and the geographical reservation was removed in October of that year. The Olaine Centre is being used to house illegal immigrants, and the Mucenieky Reception Centre is being renovated.

The number of asylum seekers remains small; 24 applications have been recorded since the new Act came into force. Two applicants who were turned down have appealed to the Refugee Appeals Board.

Police

The prevalence of organised crime is a real problem in Latvia. Since the Opinion, a number of measures have been taken, including adoption of a crime prevention programme, establishment of a coordination centre against smuggling, and amendments to the Criminal Procedure Code regarding witness and victim protection.

The Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime was signed in March 1998 and ratified in October this year. The Money

Laundering Act came into force in June; a financial investigations unit has been set up and a special office has started work on analysing and summarising reports of suspicious transactions from financial institutions.

The legal framework established in Latvia matches EU standards, but it remains to be seen whether the law will be effectively applied. The status and quality of the police need to be strengthened and the division of responsibilities between different forces should be clarified.

Latvia has still not signed the European Convention on the Suppression of Terrorism.

Drugs

Statistics show that drug abuse has been rising throughout the decade, though Latvia is still not a major consumer country. It is important, therefore, that it continue with preventive measures.

The Interdepartmental Coordinating Committee on Measures to Control Drugs and Combat Addiction has adopted a national drug control programme for 1997-1998 but has not provided finance. A master plan for the ensuing period 1999-2003 has been submitted to the government; it will require proper financing. In general a stronger multidisciplinary strategy is needed and in this framework, the role of the national contact point for information on drugs increased.

Latvia must also ensure that its Drug Enforcement Office, the main investigative and enforcement body, which comes under the police, gets the resources and training it needs.

Judicial cooperation

The following Council of Europe Conventions have come into force since the Opinion: the 1957 European Convention on Extradition and its two additional protocols (in July 1997), the 1959 European Convention on Mutual Assistance in Criminal Matters and its additional protocol (August 1997), the 1972 European Convention on the Transfer of Proceedings in Criminal Matters (September 1997) and the 1953 European Convention on the Transfer of Sentenced Persons (September 1997). Latvia has still to sign the additional protocol to the last of these.

Mutual assistance agreements on criminal and civil matters, in particular family affairs, have been concluded with Estonia, Lithuania, Russia, Belarus, Poland, Ukraine, Moldova, Uzbekistan and Kyrgyzstan. As a result there were 728 requests for judicial assistance in 1997 and 529 in the first half of this year.

Conclusion

The short-term priorities for the Accession Partnership call on Latvia to do more to combat corruption and organised crime, and to continue judicial reform. As regards judicial reform, improvements need to be made to the statute of judges. In the fight against organised crime progress has been made in the introduction of legal and

institutional instruments. This needs to be continued and backed up by strengthening police capabilities.

For most other sectors, the same thing can be said: the progress that has been made is essentially on the legal and organisational front and it remains to be seen how this will translate into operational terms. This applies in particular to border control and efforts to control drug trafficking and abuse, both medium-term priorities for the Accession Partnership.

3.8 External policies

Trade and international economic relations

The average (non-trade-weighted) customs tariff rate for industrial goods has declined to 3.5%, with customs tariffs having been reduced to zero or a 1% rate on many goods. In respect to agricultural products, the average production-weighted tariff for all products was reduced to 34% in July 1997.

Latvia's accession to the WTO was approved in October 1998. Latvia has aligned itself very closely to EC Common Commercial Policy (CCP), including the EC's GATS commitments.

Latvia continues to align itself with the EC CCP by becoming a party to various preferential trade agreements. In 1997, a Free Trade Agreement with Turkey was concluded and in April 1998 the provisional application of the Free Trade Agreement with Poland began. Latvia is negotiating a Free Trade Agreements with Hungary and Romania and is planning to start negotiations with Bulgaria.

Co-operation among the Baltic States in implementing gradual liberalisation and regional integration policies is developing and a Baltic Common Economic Area is being introduced. An agreement on the abolition of non-tariff barriers to trade has recently been concluded and negotiations are proceeding on liberalisation of the services market.

Development

Latvia has no specific budget allocation for development aid, but has granted development aid on a case-by-case basis. No GSP schemes are being applied in Latvia.

Customs

Latvia adopted the EU combined nomenclature in 1992, which was up-dated on 1 January 1998. Latvian customs now uses an integrated tariff including, for example, information on tariff suspensions.

Latvia is proceeding with the adoption of secondary legislation pursuant to the new Customs Law. WTO compatible procedures for calculating the customs value of

goods have been adopted, as well as regulations on inward and outward processing, regulations on processing under customs control and regulations on the order of submission and acceptance of guarantees at customs institutions.

In July 1998, the three Baltic Prime Ministers signed an agreement on common transit procedures. Customs documents are now valid in all three states.

A “Customs Business Strategy” was adopted in October 1997 which sets out a strategic approach to the modernisation of the customs service for a period of 3-5 years covering human resources, training and information systems. A common computer system was chosen jointly by the Latvian, Estonian and Lithuanian Governments for the computerisation of this customs revenue collection and statistics gathering process. It is now being tested and should be fully operational by 2000.

Joint customs checkpoints are being established with Estonia and Lithuania (one common checkpoint already operates at the Latvian-Lithuanian border and another one on the Latvian-Estonian border, while four other points are in different stages of preparation), eliminating the need to clear customs twice and speeding up procedures at the border.

Conclusion

Latvia continues to make progress in aligning customs legislation. More needs to be done in the area of computerisation and additional legislation needs to be adopted, e.g. in the areas of binding tariff information and pirated and counterfeit goods. Efforts still need to be made in the area of administrative modernisation in line with the short term Accession Partnership priorities.

Common foreign and security policy

Latvia has continued to participate actively in the multilateral political dialogue within the framework of the common foreign and security policy (CFSP) since July 1997. It participates in the regular meetings of political directors, European and associate European correspondents and in CFSP working groups.

It has regularly aligned its positions with those of the EU and, whenever invited, adhered to the Union’s statements, declarations and démarches, including in the context of the UN and the OSCE. One exception to this general approach concerns the Union declaration on Belarus, to which Latvia decided not to align itself.

Latvia continues to orientate its foreign and security policy towards EU and NATO. It also strives to contribute to regional stability through active cooperation in the Baltic Sea Region. Latvia is now focused on the practical preparations to fulfil the requirements of NATO membership. Peace-keeping forces of Latvia are participating in the NATO-led SFOR mission. Latvia’s contribution to European security also includes participation in the WEU-led MAPE mission in Albania.

Land border agreements have been concluded with Estonia, Lithuania and Belarus. Demarcation of the Latvian - Lithuanian and the Latvian - Estonian border should be

finished in 1998, and demarcation of the Latvian - Belarussian border has already begun. The draft agreement on the state border between Latvia and Russia was finalised in December 1997 (including description and delimitation maps) and accepted by the Latvian Government on December 9, 1997. The Latvian side has thereby accomplished all internal procedures and will sign the agreement as soon as Russia is prepared to do so.

The remaining Russian radar station at Skrunda was switched off on 31 August 1998 in accordance with a bilateral agreement supervised by the OSCE and is now being dismantled.

With the exception of the above-mentioned divergence concerning Belarus, Latvia has continued to progress in its alignment with CFSP *acquis*.

3.9 Financial questions

Financial control

With regard to external financial control no new developments can be reported.

The Management Audit Council supervises the internal audit systems in all public institutions, while the Ministry of Finance and the State Treasury Department provides for budgetary control. The present system needs, however, to be improved. In particular the internal audit units in the various ministries need to be strengthened and further efforts should be undertaken to prepare for efficient management of pre-accession funds and structural funds.

Conclusion

Substantial preparations will be needed to establish the necessary management and control mechanisms to cope with EU requirements.

3.10 General Evaluation

Latvia has made significant progress in legislative alignment and in setting up implementation structures in particular in the areas of competition, banking services, transport and standards and certification. Because much of the legislation has been recently adopted, it is too early to assess the efficacy with which it will be applied in some fields. Latvia has recognised the importance of taking action on justice and home affairs by adopting a strategic approach which still needs to be fully implemented.

Latvia has addressed in a satisfactory manner most of the short term Accession Partnership priorities, in particular in respect to facilitating the naturalisation process.

Intellectual and industrial property and data protection legislation should be adopted and attention needs to be paid to more fully addressing the administrative capacity priority.

4. Administrative Capacity to Apply the *Acquis*

This chapter updates the information given in the Opinion. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential precondition for creating the mutual trust indispensable for future membership.

In this year's report the Commission has worked with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on whether these bodies have sufficient legal powers to implement the *acquis*, on staffing levels and on staff qualifications and on budget availability. In some cases it is already possible to give information on the quality of decisions being taken. The Commission intends to further develop this aspect in future reports.

In its Opinion the Commission concluded that : 'strengthening of the administrative structure will be indispensable if Latvia is to have the structures to apply and enforce the *acquis* effectively'

4.1 Administrative structures

Following the changes in government in the spring of 1998, the Prime Minister has assumed direct responsibility for public administration reform. The Bureau of Public Administration Reform (established in July 1997) is responsible for making recommendations for rationalising the structure of the public administration.

On 10 March 1998, the Cabinet adopted a medium-term public administration strategy and an Action Plan with a range of priority tasks including eliminating duplication of tasks between Ministries, pay reform, career development, internal audit, territorial reform, budget reform and transparency issues (such as the Ombudsman and anti-corruption strategy).

The Ministry for Foreign Affairs is in particular responsible for preparing Latvian positions with regard to EU policy issues and bilateral relations with EU Member States and institutions. It has also established a Negotiation Task Force which is responsible for preparations and follow up of the screening meetings as well as for elaborating a draft accession negotiation mandate.

Since the 1997 Opinion a Council of Senior Officials (mainly State Secretaries or Deputy State Secretaries in each ministry) has been established, which meets

regularly to discuss and monitor EU integration issues. It has proved to be a valuable instrument in the coordination of the integration process.

The European Integration Bureau, EIB, (28 persons) is the central administrative institution which is responsible for the daily management of EU integration issues including the implementation of the National Programme for Adoption of the *Acquis*. The EIB has recently strengthened its coordinating role and should be able to provide efficient support to line ministries. The European Integration Bureau has a special department (7 persons) which ensures the compatibility of draft laws with the *acquis*. The EIB is also coordinating the 30 inter-ministerial working groups which are responsible for ensuring a coordinated approach to the law approximation process. Each ministry has appointed an official (State Secretary or Deputy State Secretary) to be responsible for the harmonisation of its sectoral legislation with EU requirements.

4.2 Administrative and judicial capacity : key areas for implementation of the *acquis*:

The uniform application of EC legislation: The level of knowledge of the *acquis* among judges is still rather low. Regular training of judges and court staff is organised at the Judicial Training Centre in Latvia, but needs to be extended in the fields of international law and EC legislation. An improvement in training opportunities combined with an increase of the salary level would also help attract more qualified lawyers, who now tend to only consider career possibilities in the private sector. Even though there has been an improvement compared to previous years, in July 1998, 43 out of 370 judges posts remained vacant.

Single market: The Latvian National Accreditation Office, LATAK, under the supervision of the Ministry of Economy, accredits testing laboratories, calibration laboratories, certification bodies and inspectors. A number of technical committees form branches of LATAK. To date LATAK has accredited 72 testing laboratories and 1 certification body in accordance with European standards. There are about 140 accreditation assessors. LATAK is an affiliated member of the European Cooperation for Accreditation of Laboratories Organisation and is preparing for accession to the European Accreditation of Certification organisation.

The Latvian Patent Office (34 persons) and the Latvian Patent Office's Board of Appeal continue to develop. 459 appeals and oppositions were filed with the Board in 1995-1997. 310 (67%) of these have been examined. The number of total patent applications in 1995-1997 were 3.849 and total registered trademarks in Latvia amounted to 18.576 in 1997. The Patent Office's only source of income is the patent fees received.

The State and Municipal Procurement Monitoring Department (6. persons) within the Ministry of Finance has during the past year developed its capacity to monitor the new procurement law.

Banking supervision is carried out by the Bank of Latvia. 199 on-site inspections have taken place and 3 bank licences have been removed since January 1997. The Securities Market Commission (30 persons) regulates the activities of the securities market and controls the public issues of securities. Since 1997 it has granted 12 licences to legal entities and 362 to individuals (brokers). The State Insurance Supervisory Office (24 persons) monitors developments in the insurance sector.

Latvia has established the necessary institutional infrastructure in the fields of free movement of goods. But efforts are still needed to strengthen capacity to deal with EU sectoral requirements and to make the quality assessment system fully operational. The monitoring of public procurement procedures is developing well. However substantial efforts are needed to strengthen the enforcement capacity in the intellectual and industrial property area. Concerning free movement of services, there has been a notable strengthening of the banking sector which owes much to the strict supervision of the Bank of Latvia. Efforts are still needed to improve supervision in the non-banking sector.

Competition: The Competition Council, established on 1 January 1998, is responsible for ensuring the enforcement of the new Competition Law. It consists of five members, nominated by the Cabinet of Ministers for a five year period. The Competition Council has the right to examine all documents related to an undertaking's business activities, to receive copies of those documents and to access any production facility. The Competition Bureau (46 persons) constitutes the executive body, which carries out investigations, prepares draft Council decisions and controls their execution. During its first six months of existence, the Competition Council investigated 53 cases (22 cases abuse of dominant position, 9 restrictive agreements, 4 merger control, etc.), of which there have been decisions on 37 cases while 16 are still under investigation.

The State Aid Surveillance Commission is responsible for implementing the new law on state aid. It is an independent body, consisting of 13 members delegated by different institutions, including the Competition Council. One of the most important rights of the Commission is the right to obtain all information related to state aid from state and municipal institution. The European Integration Section (8 persons) of the Ministry of Finance acts as its secretariat (among other tasks). So far the Commission has adopted two decisions on state aid projects. The decisions of the State Aid Surveillance Commission are public.

Having established the necessary institutions in the field of competition, Latvia needs to continue to invest in human resources to ensure fully functioning organisations and enforcement practices in accordance with EC legislation and regulations.

Telecommunications: Currently two regulatory bodies exist : the Department of Communications of the Ministry of Transport (13 persons) and the Telecommunications Tariff Council (6 Council members who are supported in their work by 6 additional employees). A separate body, the Department of Informatics, at the Ministry of Transport deals with information society matters.

In accordance with EC law, it is important that a regulatory authority be established in the telecommunications field whose responsibilities are clearly independent from those of the telecom operator.

Customs and indirect taxation: In Latvia the State Revenue Service, SRS, (about 4500 persons) is responsible for three main functions : tax administration (2600 persons), customs (1700 persons) and the financial police (130 persons). Apart from headquarters, there are 33 regional offices with both customs and tax administrators.

The modernisation of the tax administration in Latvia started in 1998 and is inspired by the changes that have already taken place in the customs service. A five year strategic plan has been prepared (1998-2002), which stipulates a work plan for each unit with defined performance criteria and indicators of achievement.

The establishment of the Financial Police of the SRS in 1996 was an important step. The Financial Police disclose and prevent fraud in the sphere of state revenues, conduct preliminary investigations of smuggling cases, criminal offences in the activity of the SRS and ensure the security of SRS employees while they are performing their professional duties.

Significant improvements have been achieved in the customs services since the modernisation started in 1996. Procedures have been simplified, the organisation restructured (policy separated from operational departments) and staff trained. Full computerisation of the customs service still needs to be achieved.

Agriculture: The Latvian Ministry of Agriculture comprises a small central unit and a number of subordinated and supervised bodies carrying out specialised functions as follows : Central Ministry of Agriculture (116 persons), 26 regional Agricultural Departments (1395 persons), Border Sanitary Inspection (236 persons), State Seed Inspection (136 persons), State Plant Protection Station (118 persons), State Grain Inspection (16 persons), Land Improvement Board (50 persons), State Product Quality Inspection (7 persons) and State Veterinary Service (604 persons).

The Department for Control of Products of Animal Origin operates under the auspices of the State Veterinary Service. 120 food quality inspectors have been trained. In 1997, a Sanitary Border Inspection Service under the supervision of the Ministry of Agriculture was established.

There is a need for strengthened coordination of EU accession related work within the Ministry for Agriculture, for training in EC law and for additional resources to be allocated to the legal approximation process, in particular as regards veterinary, phytosanitary and food control areas. Further reorganisation of the central departments of the ministry is likely to be needed closer to accession to handle matters such as the CAP commodity support regimes. Latvia must also prepare for managing and properly controlling EU funds in the agriculture and food sectors. In the rural development area, the role of the 26 regional offices of the Ministry of Agriculture needs to be reviewed.

Transport: The Ministry of Transport (323 persons) consists of different departments for road transport, aviation, communication, information, railway and sea transports. It has two subordinated institutions, the Road Transport Board (51 persons) and the Council of Civil Aviation (29 persons) An Under State Secretary has a special responsibility for EU integration issues. Four inter-ministerial working groups have been created in the field of transport (road transport, railway, maritime and aviation) for coordination of approximation activities.

The Railway Administration and the Railway Technical Inspectorate will be established in early 1999 as required in the new Railway Code. The maritime and port administrations have increased their activities to improve maritime safety performance. The institutional structures in the field of aviation are well established. In road transport, considerable improvements need to be made to ensure the enforcement of road safety.

Employment and social policy: The Latvian Ministry of Welfare (171 persons) has wide responsibilities covering labour market policies, social insurance, social assistance, health care provision and health finance. It monitors a number of major agencies including the State Labour Inspectorate (164 persons), the State Employment Services (529 persons), the State Pharmaceutical Inspection (17 persons) and the State Agency of Medicines (65 persons).

The Ministry of Welfare is responsible for new pension reforms and social protection systems. The administration has recently been reinforced, but staff shortages, fast staff turnover and inadequate communication between the ministry and its agencies are problems which need to be addressed.

Regional policy and cohesion: Several ministries share the responsibility for Latvia's regional policy. The Ministry of Environmental Protection and Regional Development (MEPRD) deals generally with spatial planning and regional development with the exception of aspects related to the business environment which are the responsibility of the Ministry of Economy. The Ministry of Agriculture deals with rural development and the Ministry of Finance is responsible for financial supervision.

The Regional Development Council ensures coordination between ministries. It is chaired by the MEPRD and comprises representatives of the ministries concerned and representatives of Parliament. Its specific tasks include the design of Latvia's Regional Development strategy, consultations on draft regional development programmes and responsibility for the Regional Fund (support to specially assisted regions). Two task forces, on the preparation for EU structural funds (chaired by the Ministry of Finance) and on regional policy (chaired by MEPRD), have also been established.

Latvia needs to continue to strengthen its institutions responsible for regional policy and cohesion. In particular, the monitoring and control system need to be considerably improved.

Environment: The Ministry for Environmental Protection and Regional Development (MEPRD) employs currently 1460 persons, of which 1348 work in subordinated organisations (including Regional Environmental Boards, Latvian Hydrometeorological Agency, Environmental State Inspections, Local Government Administration Board) and 112 in the ministerial central body. The Ministry has two state ministers : one for environment and one for local government. It consists of six departments : environmental protection, regional development, building, investment, legal matters and administrative affairs.

The part of the Ministry dealing with environmental issues has recently made efforts to strengthen its capacity to deal with EU affairs and in particular regarding harmonisation with EC legislation. The Ministry still needs to clarify issues such as the allocation of responsibility between MEPRD and subordinate institutions, (including between different administrative levels), internal communication and coordination and the allocation of adequate resources to monitoring and enforcement. In particular, there is still a need to enhance the skills and institutional capacities of local authorities.

Consumer protection: Within the Ministry of Economy, the department for Quality Management and Structure Development includes a unit dealing with Consumer Rights Protection (4 persons). The division's main tasks are to elaborate and coordinate legislation and policy concerning consumer rights and interests as well as to coordinate other activities in this area. In addition, the Cabinet decided on 17 March 1998 to establish a Consumer Rights Protection Centre (34 persons) under the Ministry of Economy. The statutes of the Centre specify that its competence is to control the observance of consumer rights in the areas of goods and services (excluding areas controlled by other institutions like food, veterinary issues and pharmaceuticals).

Latvia is beginning to develop a consumer protection policy and establishing the necessary institutions in the field of consumer protection. Further work is needed to ensure full protection of consumers' rights.

Justice and home affairs: The Ministry of Justice (116 persons) in Latvia has three main functions; 1) legislative drafting and the submission of legal opinions, 2) administration of courts of the first two levels, 3) legal registration and supervision of registers. In addition several autonomous legal agencies are under the authority of or supervised by the Ministry : the State Land Service (3054 persons), the State Language Centre (23 persons including 18 inspectors), the Naturalisation Board (155 persons), the Patent Board (32 persons), the General Directorate of State Archives (26 persons) and the Company Register (74 persons).

The Prosecutors offices are independent institutions not subordinated to the Ministry of Justice. The Prison Administration is under the supervision of the Ministry of Interior. However, from 1999, it will be subordinated to the Ministry of Justice. The Border Guards (2730 persons) is a new institution which was established in January 1997.

Latvia needs to focus on improving the workings of the judicial apparatus (already mentioned under the section “Political Criteria” above) and in particular up-grading the profession of judges and prosecutors. The border management systems on the eastern border need substantial human and financial resources to become efficient. It is too early to assess whether the administration has the capacity to effectively implement the recently adopted asylum law and deal with migration issues. The Police need increased budgetary resources for training and up-grading of facilities in order to improve performance and to attract personnel (there are about 1000 vacancies in the police force at the moment).

Financial Control: The State Audit Office (SAO), an independent collegiate institution, is the central institution of the Latvian system for monitoring the use of state and local government budgets. The SAO can request the dismissal of public servants responsible for losses in the state budget. During an audit, the SAO assesses the work of internal control structures and delivers recommendations on necessary improvements. The SAO consists of four departments responsible for the State budget, state economic activities, the privatisation process and local government.

All ministries have established internal audit structures. These units are responsible for the organisation, coordination and supervision of audits within each government body as well as for organisations or state owned companies under the supervision of the government body. Once a year the internal audit units submit reports on their activities to the State Audit Office. At present, internal audit units of 13 ministries employ 90 auditors which is a rather limited number in comparison to the SAO, which employs 150 auditors. Given the fact that the control requirements for EU-expenditure in agriculture, structural funds and own resources quite differ from the control systems in Latvia, it is evident that considerable preparations are needed to establish the necessary management and control mechanism and to upgrade existing and future staff capacity. In particular the internal audit units need to be strengthened.

Latvia has made limited progress in meeting the Accession Partnership priorities in this field. The National Programme for the Adoption of the *Acquis* should contain detailed plans and time frames to create such control systems and upgrade the quality of relevant staff.

4.3 Twinning

In order to help candidate countries meet the challenge of strengthening their administrative capacity and adapting their administrations to implement the *acquis* the Commission and the Member States are developing a process of twinning under the Phare programme. In the EU the *acquis* is implemented in the Member States by national administrations (at central, regional and local level) and by agencies, professional bodies and the private sector. This vast body of administrative and technical expertise is now being made available to the candidate countries. Initially twinning will cover four sectors – agriculture, environment, finance and justice and home affairs but will gradually be extended to the whole of the *acquis*.

Latvia is participating actively in twinning.

4.4 General evaluation

Latvia has made a number of important steps in strengthening its public administration, recognising the importance of setting up and developing enforcement capacity in areas such as standards and certification, state aids and banking supervision. However, further efforts are needed to clarify responsibilities in environment and regional development. Administrative capacity needs to be strengthened in agriculture, intellectual and industrial property, customs and tax administration, justice and home affairs. The capacity of the judiciary to apply the *acquis* should be strengthened by enhancing the status of the profession, through training and ensuring that vacancies are filled promptly.

C. Conclusion

Latvia continues to fulfil the Copenhagen political criteria. Major progress has been made in dealing with weaknesses identified in the Opinion and the Accession Partnership priorities in particular as concerns the integration of non-citizens. Continuing attention needs to be paid to the promotion of Latvian language learning among non-citizens, public administration reform, strengthening the judiciary and the fight against corruption.

Latvia has continued to make progress in establishing a market economy and is well on the way to being able to cope with competitive pressure and market forces within the Union in the medium term.

It has made a lot of progress in transposing the *acquis* but needs to consolidate its implementation and enforcement capacity. Provided it does so Latvia will be able to apply the *acquis* effectively in the medium term.

D. Accession Partnerships and National Programmes for the Adoption of the *Acquis*: Global Assessment of Implementation

The purpose of the Accession Partnership is to set out in a single framework the priority areas for further work identified in the Commission's Opinions, the financial means available to help the candidate countries implement these priorities and the conditions which will apply to that assistance. Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis* setting out how it would deal with the Accession Partnership, the timetable for implementing its priorities and outlining human and financial resource implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership: Assessment of short-term priorities

The Accession Partnership sets out the following short term priorities for Latvia:

- **Political criteria:** take measures to facilitate the naturalisation process to better integrate non-citizens including stateless children and enhance Latvian language training for non-Latvian speakers.
- **Economic reform:** establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe Agreement: acceleration of market-based enterprise restructuring, in particular through the completion of the privatisation process; continued strengthening of the banking sector; modernisation of the agriculture sector and establishment of a land and property register.
- **Reinforcement of institutional and administrative capacity:** further structural reform of public administration is needed and in particular customs and tax administration, financial control capacity, reinforcement of the agriculture ministry and the establishment of a training strategy for the judiciary, reinforcement of the veterinary and phytosanitary administrations, particularly as regards facilities at external borders, institutional strengthening in the area of environment, begin to set up structures for regional and structural policy.
- **Internal Market:** further alignment including in areas of intellectual and industrial property rights, public procurement, financial services, competition, state aids and indirect taxation, adoption of a law on state aid and increased transparency through improvement of the aid inventory and reinforcement of the new anti-trust authority.
- **Justice and Home Affairs:** in particular further efforts to implement measures to combat corruption and organised crime and to continue judicial reform.

- **Environment:** continue transposition of framework legislation, establishment of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.

Progress concerning the fulfilment of the short-term priorities can be summarised as follows:

- **Political criteria:** Latvia has made major progress as regards the short term priorities of the Accession Partnership relating to political criteria. The successful 3 October referendum on amendments to the Citizenship Law has facilitated an acceleration of the naturalisation process, notably by abolishing the “window system” (see further Chapter 1.2.3) and granting citizenship to stateless children. The Latvian Language training programme has completed its first phase including training of 2.700 minority school teachers (“train-the-trainer”) and about 12.000 non-Latvian speakers.
- **Economic criteria:** Latvia has elaborated a medium-term economic strategy and carried out a joint assessment together with the Commission. The privatisation process of SMEs is almost complete. Privatisation of some larger enterprises, in particular in the utilities sector, remains outstanding. Further efforts in enterprise restructuring will be needed for several years to come. The banking sector has been considerably strengthened due to stricter supervision. Modernisation of the agriculture sector and the establishment of a land and property register is on-going but not complete.
- **Reinforcement of institutional and administrative capacity:** Latvia has started a strategic reform of the public administration in particular through the adoption of a medium-term strategy in March 1998. Special efforts are being devoted to the reform of the tax and customs administration, where progress can already be seen. The preparations for accession by the agriculture ministry (including veterinary and phytosanitary administrations), environmental institutions and the judiciary will require considerable additional efforts and financial resources. Preparations for regional and structural policy have started. The internal audit units in each ministry will need to be strengthened in order to be able to channel the EU structural and cohesion funds in an efficient and reliable manner.
- **Internal market:** Legislative and institutional progress has been made in the areas of intellectual and industrial property rights, public procurement and financial services. The supervision of the banking sector is in general high quality and the public procurement office has developed its enforcement capacity. The supervisory capacity in the non-banking financial sector needs to be reinforced. The Competition Council and the State Aid Surveillance Commission have been established to monitor the new competition and state aid laws. A state aid survey for 1997 was published in July 1998, which follows EU requirements more adequately than those published for the years 1995 and 1996.
- **Justice and Home Affairs:** A Council for the Prevention of Corruption was established in 1997 and in January 1998, Latvia adopted a national programme comprising urgent short-term actions in the field of corruption which is to be

revised every six months. Laws on the protection of witnesses and crime victims as well as on money laundering were adopted in 1998. Judicial reform continues. Considerable additional resources will, however, be needed for training and upgrading the profession of judges.

- **Environment:** Progress has taken place in aligning Latvian legislation to the *acquis* in the field of environment and plans for further activities have been developed. Hazardous waste management is, however, one of the areas where further progress is needed.

Latvia has addressed in a satisfactory manner most of the short term Accession Partnership priorities. Attention needs to be paid to accelerating transposition in the intellectual and industrial property and public procurement fields and to more fully addressing the administrative capacity priority.

2. National Programme for the Adoption of the *Acquis* Assessment

The first version of the Latvian National Programme for the Adoption of the *Acquis* was presented on 27 March. The National Programme for the Adoption of the *Acquis* was adopted by the Government on 28 April without any substantial changes.

The Latvian National Programme for the Adoption of the *Acquis* (NPAA) is also called “3rd National Programme for Integration into the EU”, since Latvia had already earlier elaborated two similar integration programmes. The National Programme for the Adoption of the *Acquis* has been divided into three main parts in accordance with the Copenhagen criteria as well as a fourth part concentrating on administrative capacity. Each of the four parts seeks to address the main points raised in the Accession Partnership (AP) in separate fiches.

The Latvian National Programme for the Adoption of the *Acquis* represents a good start for setting priorities on how to assume the obligations that follow from EU membership. The fiches that have been established describe well the current status in each sector, the tasks to be achieved, the institution responsible, inputs and outputs and provide risk assessments. Nevertheless, the National Programme for the Adoption of the *Acquis* needs to become more directive-specific, indicating fixed deadlines for each directive to be implemented.

Overall, the main Accession Partnership priorities are covered, even if there is a need to cover the *acquis* to a greater extent in some areas, including free movement of goods (the non-harmonised area), social policy, environment (certain elements of the *acquis* are missing), transport (directives on combined transport, land transport safety and several directives in the field of maritime transport), telecommunications, energy, consumer protection (distance selling, comparative advertising and price indication) and statistics (more details needed).

An area which is covered in a particularly satisfactory manner is the integration of society including the acceleration of naturalisation procedures and Latvian language training.

The necessary implementation structure is covered in each technical fiche. For each measure the necessary institutional needs, personnel and training are normally identified, although there are a few gaps. As for budgetary aspects, the assessment needs to be further refined.

The above comments as well as a number of more sector specific details have been communicated to the Latvian authorities, who have committed themselves to revise the National Programme for the Adoption of the *Acquis* accordingly. Once the National Programme for the Adoption of the *Acquis* is revised, the Commission will take a position on the National Programme for the Adoption of the *Acquis* which it will communicate to the Council during the second half of 1999, at the time of the re-examination of the Accession Partnership.

Annex

STATISTICAL DATA

STATISTICAL DATA

	1993	1994	1995	1996	1997
Basic data	in 1000				
Population (end of period)	2566	2530	2502	2480	2458
	in 1000 hectares				
Total Area	6459	6459	6459	6459	6459
National Accounts	in Bn Lats				
Gross Domestic Product at current prices	1.5	2.0	2.3	2.8	3.2
	in Bn ECU				
Gross Domestic Product at current prices	1.9	3.1	3.4	4.0	4.9
	in ECU per capita				
Gross Domestic Product at current prices	700	1200	1400	1600	2000
Structure of Production	in % of Total Gross Value Added				
- Agriculture	11.8	9.5	10.8	9.0	7.4
- Industry	30.8	25.4	28.1	26.4	25.7
- Construction	4.3	5.9	5.1	4.7	5.0
- Services	53.2	59.2	56.0	59.9	61.9
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	:	:	84.8	88.7	86.5
- household and NPISH	:	:	62.6	66.8	65.2
- general government	:	:	22.2	21.9	21.3
- Gross fixed capital formation	:	:	17.6	18.1	18.7
- Exports of goods and services	:	:	46.9	54.5	56.2
- Imports of goods and services	:	:	49.3	61.3	61.4
Gross Domestic Product	% change over the previous year				
	-14.9	0.6	-0.8	3.3	6.5
Gross Domestic Product per capita	in Purchasing Power parities				
	4000	4200	4300	4700	5100
Inflation rate	% change over the previous year				
Consumer Price Index	109.2	35.9	25.0	17.6	:
Balance of payments	in millions of ECU				
-Exports of goods	900	859	1046	1172	1542
-Imports of goods	898	1111	1489	1800	2369
-Trade balance	3	-253	-443	-628	-826
-Services, net	281	303	362	302	333
-Income, net	6	8	15	32	40
-Net current transfers	67	112	54	73	64
-of which government transfers	40	90	27	40	25
-Current account balance	356	169	-12	-221	-389
-Reserve assets (incl. gold)	472	521	458	595	703

- Construction	5.5	5.5	5.4	5.7	5.7
- Services	51.9	54.2	55.7	56.1	56.2
Infrastructure	in Km per 1000 Km2				
Railway network	:	:	37.4	37.4	37.4
	in km				
Length of motorways	:	:	:	:	:
Industry and Agriculture	previous year = 100				
Industrial production volume indices	67.9	90.1	96.3	105.5	106.1
Gross agricultural production volume indices	78	80	94	90	100.2

Methodological Notes

Gross domestic Product per capita in PPS: Revised data using the new PPP results from the 1996 International Comparison Project.

Reserve assets: are end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

General government deficit / surplus: is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts.

Monetary aggregates: are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government and private sectors. It should be noted that the problem of measuring the circulation of foreign currency in some Applicant Countries may affect the reliability of the data.

Interest rates: Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates: Where available, the ECU exchange rates are those officially notified to DG II. The effective exchange rate index is weighted by major trading partners, with a base year of 1993.

Imports and exports (current prices): External trade data are compiled on the basis of data taken from customs declarations and statistical surveys. The data is based

upon the “special trade” system, according to which, external trade comprises goods crossing the customs border of the country. Trade data excludes temporary exports and imports, repair trade, leasing, goods for diplomatic corps and embassies, humanitarian aid, trade in services, trade with customs free zones as well as licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). *Trade Classification:* Merchandise trade flows are recorded according to the Latvian Combined Commodity Nomenclature. This is a description and coding system formed on the basis of the Harmonised Commodity Description and Coding System and the EC Combined Nomenclature. Imports are recorded on CIF basis, Exports on FOB basis.

Eurostat has converted the National Currency to the US dollar by applying the International Monetary Fund annual average exchange rates.

Imports and exports with EU-15: National sources. Data for years 1993 and 1994 refer to trade with EU-12 only.

Economic activity rate (ILO Methodology): - Percentage of labour force in total population aged 15+.

Unemployment rate (by ILO methodology): - Percentage of the unemployed labour force.

This rate is derived from LFSS (Labour Force Sample Survey) observing the following ILO definitions and recommendations:

Labour force: employed and unemployed persons in the sense of the ILO definitions stated below.

The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

Data from November 1995 LFSS monitors the population aged 15-69. Data from May and November 1996 LFSS monitors the population aged 15 years and over. LFSS excludes persons on compulsory military service and persons living in non-private households. Employees on maternity leave and child care until 3 months are included. Data for 1995, 1996 and 1997 refer to November 1995, November 1996 and November 1997.

Average employment by NACE branches (LFS): This indicator is derived from LFSS (Labour Force Sample Survey) observing the ILO definitions and recommendations.

Data include enterprises and other organisations under all kinds of ownership. The data cover all budgetary organisations. Persons in compulsory military service and employees on childcare are excluded.

Industrial production volume indices: Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E).

Sources

Basic data, National Accounts, Foreign trade, Demography, Labour market, Infrastructure, Industry and Agriculture : **New Cronos**.

Reserve assets and Financial indicators : Where possible Eurostat B-4's questionnaire on monetary and financial statistics has been used as the source. Applicant Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission (DG II) is used as the source for exchange rates against the ECU, where possible

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source.

Concerning general government deficit / surplus, Applicant Countries are presently unable to provide reliable data. Unit B-4 is working closely with these countries with the aim of improving their national accounts based government finance statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).