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REGULAR REPORT

ON

SLOVENIA'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 Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” ... “The Commission’s reports will serve as the 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.”

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second series in October 1999, and a third in November 2000. The Commission has prepared this fourth series of Regular Reports with a view to the Laeken European Council in December 2001.

The structure followed for this Regular Report is the same as that used for the 2000 Regular Report. In line with previous Regular Reports, the present Report:

- describes the relations between Slovenia and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Slovenia’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Slovenia’s capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety standards, as underlined by the Cologne and Helsinki European Councils. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as emphasised by the Madrid European Council in December 1995, and confirmed by the Gothenburg European Council in June 2001. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Gothenburg European Council emphasised the vital importance of the

candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening and reforming their administrative and judicial structures.

This Report takes into consideration progress since the 2000 Regular Report. It covers the period until 30 September 2001. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 2000 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Slovenia in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Slovenia's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last Regular Report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, provides, besides an assessment of progress made over the reference period, also a dynamic, forward-looking evaluation of Slovenia's economic performance.

The Report contains a separate section examining the extent to which Slovenia has addressed the Accession Partnership priorities.

As has been the case in previous Reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment of each country in terms of its concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations¹, have served as additional sources. Council deliberations and European Parliament reports and resolutions² have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

¹ As in previous years, the Report does not mention any commitments undertaken nor requests made in the context of the accession negotiations.

² For the European Parliament the *rapporteur* is Demetrio Volcic.

b) Relations between the European Union and Slovenia

Recent developments under the Association Agreement (including bilateral trade)

Slovenia has continued to implement the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions.

The third meeting of the Association Committee took place in Ljubljana in April 2001. The Association Council met in Luxembourg in June 2001. The system of sub-committees continued to work as a forum for technical discussions. The sixth session of the Joint Parliamentary Committee between the Slovenian National Assembly and the European Parliament took place in April 2001 in Brussels.

In 2000, EC exports to Slovenia amounted to €8.1 billion and Slovenian exports to the EC to €6.3 billion. Slovenia thus had a trade deficit of €1.8 billion with the EC. This represents an increase of 15% in EC exports and 16% in EC imports as compared to 1999. In 2000 the EC accounted for 64% of total Slovenian exports, and for 68% of total Slovenian imports. Slovenia's exports to the EC consisted mainly of machinery and electrical equipment (23% of the total), transport equipment (18% of the total) and base metals (13% of the total). The EC's exports to Slovenia consisted mainly of machinery and electrical equipment (25% of the total), transport equipment (15% of the total) and base metals (11% of the total).

Regarding agricultural products, a new agreement on reciprocal concessions entered into force in July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement. As a consequence of this agreement approximately 76% of EC imports and 56% of EC exports of agricultural products are exempted from duties.

A second round of bilateral negotiations for trade liberalisation in agriculture is presently being prepared and would cover more sensitive sectors in which current trade is low, in particular due to a high degree of tariff protection.

The Association Council adopted a decision in September 2001 on further liberalisation of trade in processed agricultural goods. The decision is implemented as of November 1, 2001.

In March 1996, the Council mandated the Commission to open negotiations with Slovenia for agreements on the reciprocal recognition, protection and control of wine names and spirits designations, and a bilateral trade agreement on wine for reciprocal concessions to distribute the unilateral global quota of 545,000 hl allocated to the States which had previously formed part of the former Socialist Federal Republic of Yugoslavia. In March 2001 an overall agreement was reached at technical level and it is foreseen that the agreements should enter into force on 1 January 2002 as an Additional Protocol to the Europe Agreement.

Trade issues with the EC have in the last year primarily centred on veterinary issues (BSE-related measures, and notably foot and mouth disease measures). Other issues were occasional problems related to the import of foodstuffs due to incomplete harmonisation of standards concerning the content of toxic substances in certain foodstuffs. Slovenia is in the process of adopting relevant legislation that would resolve these issues.

Slovenia signed the European Agreement on International Occasional international Carriage of Passengers by Bus (INTERBUS) in December 2000.

The Association Council adopted a decision laying down the Implementing Rules for the anti-trust provisions of the Europe Agreement in December 2000 and for the state aid provisions in May 2001. It decided in July 2001 to extend the period for which Slovenia as a whole benefits from the regional aid status of Article 87(3)(a) of the EC Treaty.

Discussions with Slovenia on the conclusion of a PECA (Protocol on European Conformity Assessment) are at an advanced stage.

Accession Partnership / National Programme for the Adoption of the Acquis

The implementation of the revised Accession Partnership with Slovenia, adopted in December 1999, continued. Its implementation is reviewed in Part D of this Report. This Regular Report is accompanied by a proposal from the Commission to update the Accession Partnership.

In May 2001, Slovenia presented a revised National Programme for the Adoption of the *acquis* in which it outlines a revised strategy for accession, including how to achieve the priorities of the Accession Partnership (see Part D).

Community aid

There are three **pre-accession instruments** financed by the European Community to assist the applicant countries of Central and Eastern Europe in their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agriculture and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. These programmes concentrate their support on the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

In the years 2000-2002 total financial assistance to Slovenia amounts annually to €25 million from Phare (with €3.3 million added in the course of 2001), €6.5 million from SAPARD and between €0.8 and 21.7 million from ISPA.

The **Phare** programme has been providing support to the countries of Central and Eastern Europe since 1989, helping them through a period of fundamental economic and social transition and political change. Its current “pre-accession” focus was put in place in 1997, in response to the Luxembourg European Council’s launching of the present enlargement process.

Phare provides the applicant countries of Central and Eastern Europe with support for institution building (around one third of the Phare allocation), investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* (equally around one third of the allocation), and investment in economic and social cohesion (the remaining one third of the Phare allocation). This support comprises co-financing for technical assistance, “twinning” and investment support projects, to help these countries in their efforts to adopt the *acquis* and strengthen the institutions necessary for implementing and enforcing the *acquis*. This also helps the candidate countries develop the mechanisms and institutions that will be needed to implement the Structural Funds after accession and is supported by a limited number of measures (investments or grant schemes) with a regional or thematic focus.

The Phare programme allocated Slovenia commitments of €92 million during the period 1992-1999 and €3.4 million in 2000³. The **2001 Phare Programme** for Slovenia consists of an allocation of €1.3 million for the National Programme, concentrated on the following priorities:

- reinforcement of the *acquis* (accounting system of the European Agricultural Guidance and Guarantee Fund, veterinary and phytosanitary measures, social dialogue), €1.12 million.
- internal market (free movement of goods, market surveillance bodies), €2.15 million.
- justice and home affairs (police surveillance equipment at frontiers, refugee centre, deportee centre, border crossing facilities with Croatia, phytosanitary and veterinary controls at the frontier), €0.30 million.
- economic and social cohesion (grant scheme for local infrastructures and social inclusion - employability-), €3.50 million.

An additional €7 million has been allocated for cross-border co-operation programmes with neighbouring countries from within the Phare Programme for Slovenia. For the years 2000 to 2001 the Phare contribution amounts to €5 million for Italy and €5 million for Austria; in 2001 a Phare contribution of €2 million is foreseen for a programme on the border with Hungary.

Slovenia also participates in and benefits from Phare funded multi-country and horizontal programmes such as TAIEX and the Small and Medium-Sized Enterprises Facility.

Furthermore, in 2001 Slovenia is participating in the following Community programmes with co-financing from Phare: Socrates, Leonardo da Vinci, Youth, Life III, and the 5th Framework Programme for R&D. Following the ratification and entry into force of the agreement, the formal participation of Slovenia in the European Environment Agency will start in January 2002.

In order to streamline Community legal procedures and therefore facilitate the future participation of Slovenia in Community programmes, a Decision by the EU-Slovenia Association Council establishing the general principles for such participation is being prepared.

In Slovenia, Phare has played a particularly important role through the following projects:

Electricity and Gas Sector Regulation: a technical assistance project under Phare 1999 with a duration of twelve months and a budget of €200,000 was successfully completed at the end of March 2001. The overall objective of providing support in the establishment of the Energy Agency as an independent regulatory authority was reached. The preparation of the institutional and staffing capacity to regulate gas and electricity markets was achieved *inter alia* through drafting of licenses/regulations and the development of a price methodology/dispute settlement procedure.

Business Support Centre, Kranj: in 2000, two Phare projects supporting the Kranj Business Support Centre were concluded. The first was financed from the 1996 Phare CBC Slovenia-Austria programme and its main objective was the construction of a business incubator in the town of Kranj. The project was later relocated to the city of Jesenice, where the new premises of the BSC business incubator were opened in October 2000. The project lasted twelve

³ This includes an allocation of €7 million to Cross-Border Co-operation (CBC) Programmes.

months and the Phare programme contributed €400,000 with co-financing from both the Ministry of Small Business and Tourism and the Municipality of Jesenice amounting €482,000. Existing companies and start-ups located in the region have shown great interest in the project from the beginning. A second project, BSC phase II, lasted twelve months and was concluded in October 2000. It was financed from the 1997 Phare CBC Slovenia-Austria programme with a Phare contribution of €234,000. The two phases of the project focused on the improvement of co-operation with companies and institutions from the Austrian side of the border.

SAPARD Agency: following its creation in December 1999, the Agency for Agricultural Markets and Rural Development (AAMRD) has been working towards certification by DG AGRI to manage SAPARD funds. The Phare programme has provided €1.2 million for capacity building in this agency. Support started in January 2000 and continued until June 2001. Germany and France have been the lead Member States for the projects; Austria and Greece were also involved. The projects have helped in the design of the organisational structure of the AAMRD, the eligibility and selection criteria, the procedure to handle applications and payments and the inspection and monitoring functions.

Overall the impact of Phare in Slovenia has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as industrial restructuring and bank privatisation, SME development, trade and investment promotion, energy etc. Phare support to agriculture and SME development has succeeded in developing sector strategies and initiating essential institutional and financial mechanisms serving enterprises in these sectors.

Whereas the selection and execution of Phare projects linked directly to the adoption of the *acquis* has been generally satisfactory, this is not the case for Economic and Social Cohesion and Cross Border Co-operation. A large backlog has built up in the implementation of projects. Only €1 million out of €5 million for the 1999 CBC programme with Italy and none of the €2 million for the 1999 CBC programme with Austria has been contracted. Only 21% of the €2 million Project Preparation Facility agreed in 1999 has been contracted. Similarly, none of the €12 million set aside in 2000 for Economic and Social Cohesion and CBC has been contracted. These areas are crucial for practical preparation for the Structural and Cohesion Funds.

Difficulties in programming can in part be explained by the absence of adequate programming strategies. This deficit is being progressively removed with the drafting of the National Development Plan (due for November 2001) and the Joint Programming Documents with neighbouring countries. However, there is also a fundamental problem of management with inadequate staffing resources both in quantity and quality, and in the selection of work priorities inside Slovenia.

The Phare Review for 2000 confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The Review foresees the possibility that management of the Phare funds can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis on raising the verifiable and

quantifiable impact of Phare projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

The **SAPARD** programme for Slovenia was approved by the Commission in October 2000. The programme is based on two major priorities: improvement of production and marketing structures in agriculture and food processing (75% of EC funds) and economic diversification and improvement of rural infrastructures (24% of EC funds). The annual allocation for SAPARD in Slovenia for 2000 was €6.4 million at 2000 prices.

The Multi-annual Financing Agreement setting out the rules for implementing SAPARD and the Annual Financing Agreement setting out the Community financial commitments for the year 2000 to Slovenia were both signed in March 2001 and entered into force in August and October 2001 respectively.

In September 2001 Slovenia submitted the national act of accreditation of the SAPARD Agency (Agency of the Republic of Slovenia for Agricultural Markets and Rural Development), which is presently under consideration by the Commission.

Programming for **ISPA** is based on the Strategy Documents for the Environment and Transport sectors agreed with the Commission in April 2000. An updated version of the Transport Strategy was presented to the Commission in 2001. An Implementing Agency in the Ministry of Finance works together with the Ministries for Transport and Environment. Four projects and two requests for technical assistance were approved by the Commission in 2000 - four of these in the field of environment (three on waste water treatment and one on cleaning up of the Sava river) and the remaining two in the field of transport. In the area of transport, given the availability of funds, the priority has been given to rail projects. However, in reality the priority is balanced by the emphasis given elsewhere to roads. The Commission has made recommendations to the Slovenian authorities aimed at improving the quality of the presentation of projects, particularly concerning the economic and financial analysis. It has encouraged them to approach international financial institutions such as the EBRD and the EIB in order to have access to finance for larger and more visible projects. This would be particularly important in the area of rail transport taking into account strategic position for corridors V and X.

The first Monitoring Committee meeting took place in Ljubljana in May 2001. Preparations for the introduction of EDIS (extended decentralisation) are ongoing and it is hoped that it could be introduced at the beginning of 2002.

In 2000, Slovenia received a total of about €19 million of ISPA funding. The Memorandum of Understanding was signed by the Slovenian Authorities in December 2000.

Twinning

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, the European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of member States' expertise is now being made available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

To start with, twinning focused primarily on the priority areas of agriculture, environment, public finance, justice and home affairs and preparatory measures for the structural Funds. It now covers all sectors pursuant to the *acquis*.

A total of 372 twinning projects, primarily in the fields of agriculture, environment, public finance, justice and home affairs and preparation for the management of structural Funds, have been funded by the Community between 1998-2000. These represent the principal priority sectors that have been identified in the Accession Partnerships. But also other important sectors of the *acquis* have been addressed through twinning, for example, social policy, fight against drugs, transport and telecommunications regulation.

Thanks to the strong support and response from EU Member States 103 twinning partnerships, funded by Phare 1998 and involving all candidate countries and almost all member States are coming to an end or have been concluded. Under Phare 1999, a further 124 projects are being implemented and the programming exercise for Phare 2000 includes a further 145 twinning projects. The 2001 programming exercise foresees 131 twinning projects in all Phare beneficiary countries as well as Cyprus and Malta. Furthermore, the candidate countries are being offered the possibility of drawing on Member States' expertise through "Twinning Light", to address issues requiring adaptation which emerge during the negotiation process and have a limited scope. It is estimated that around 250 twinning projects are operational throughout the candidate countries at any one time.

In Slovenia there are currently 34 twinning projects, of which nine have been completed, thirteen are in progress and twelve are under preparation. The sectors covered are agriculture (nine projects) economic and social cohesion (five projects), internal market (eight projects), financial sector (four projects), justice and home affairs (seven projects) and environment (one project)

In January 2001 an assessment was carried out for fourteen twinning projects launched in 1998 and 1999. The result was positive and showed smooth co-operation and good absorption capacity on the Slovene side.

Negotiations / screening

The analytical examination of the *acquis* (screening) has taken place in the context of meetings of the Association Committee and the sub-committees.

Since the opening of the accession negotiations in March 1998, Slovenia has participated in seven rounds of ministerial negotiations. As a result of these negotiations, the following 21 chapters have been provisionally closed (free movement of goods, freedom to provide services, free movement of capital, company law, fisheries, Economic and Monetary Union, statistics, social policy and employment, energy, industrial policy, small and medium-sized enterprises, science and research, education and training, telecommunications and information technologies, culture and audio-visual policy, environment, consumer and health protection, customs union, external relations, common foreign and security policy, financial and budgetary provisions), while negotiations continue for the remaining chapters.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”⁴

In its 2000 Regular Report on Slovenia’s progress towards accession, the Commission concluded that:

“Slovenia continues to fulfil the Copenhagen political criteria. Progress has been made in judicial reform, which is a medium-term priority in the Accession Partnership. However, it is still too early to assess the effectiveness of the new measures aimed at reducing the backlog of pending court cases. Public administration reform is another area requiring attention. Little progress has been achieved in this respect since the last Regular Report as important pieces of legislation which are to provide the basis for reform have not yet been adopted. This area is a short-term priority in the Accession Partnership. The denationalisation process remains slow and further efforts are needed to speed it up”

The section below aims to provide an assessment of developments in Slovenia since the 2000 Regular Report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Slovenia’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Slovenia’s ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Cooperation in the field of justice and home affairs*) of part *B.3.1.* of this report.

Recent developments

The centre-left Liberal Democratic Party emerged as the largest party in the parliament following the elections of October 15, 2000. It holds 34 of the 90 seats in the parliament. It formed a coalition government in December 2000 with the leftist United List of Social Democrats, the centre – right SLS + SKD People’s Party, and the Democratic Party of Pensioners. The coalition has a large majority with 58 out of 90 seats in the parliament and can in many issues count on the support of further 10 parliamentarians. The largest opposition parties are the Social Democratic Party (14 seats) and the New Slovenia Christian People’s Party (8 seats).

⁴ These principles have been emphasized in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

The coalition government is led by the Liberal Democratic Party, which holds 10 ministerial posts. The United List of Social Democrats and the People's Party have each three ministerial posts.

1.1. Democracy and Rule of Law

As mentioned in the previous Regular Reports, Slovenia has achieved stability of institutions guaranteeing democracy and the rule of law. This section focuses on the main new developments during the past year.

The Parliament

The Parliament has operated smoothly since its appointment in November. The structure of parliamentary committees and commissions was changed after the elections in order to improve the efficiency of the Parliament's work. The bodies responsible for EU affairs remained, however, unchanged; there is a Commission for EU affairs, a Delegation to the Joint Parliamentary Committee and a Committee for Foreign Affairs with some accession related competencies.

The legislative process generally remains slow as every law continues to need three 'readings' in the Parliament and draft legislative proposals are dealt with by the Parliament in the order of their arrival. While this ensures that all political forces in the Parliament can provide input into the legislative drafting process, it can also lead to delays in handling the government's proposals.

EU-related laws are, however, less affected by this situation as they continue to be treated with priority in the Parliament and many of them have been adopted by accelerated procedure (i.e. three readings are held within one or a few days).

New Parliament Standing Orders, which had been submitted for adoption already in 1998, have passed second reading in the Parliament. Once adopted, they will fasten the parliamentary procedure by limiting the time for discussions and increasing the role of the parliamentary committees. In the meantime, the handling of the referendum motion concerning the transformation of duty free shops on land borders to normal retail shops revealed that the present Parliament Standing Orders are not in line with the Constitution and the Law on Referenda. The referendum motion was submitted in January and was refused by the Parliament for failing to fulfil the time limit set in the Parliament Standing Orders for requesting referenda on adopted laws. However, the constitutional court ruled in May that the provisions in the Parliament Standing Orders concerning the deadline for submission of such motions do not comply with the Constitution and the Law on Referenda. The draft new Parliamentary Standing Orders are intended to remedy this situation.

Amendments to the law on referenda were adopted in July in order to address some of the shortcomings in the legislation. The number of signatures needed for launching a referendum request was increased from 200 to 1,000.

The Executive

Over the past year, Slovenia has made some progress with regard to overall public administration reform through the adoption of the Law on Government and the Code of

Conduct for Civil Servants. Progress in this area – including the introduction of a civil service law and legislation on public agencies - was identified as a priority in the Accession Partnership of 1999. The new Law on Government was adopted in November 2000, and amendments to the Law on the Organisation and Working Field of Ministries were adopted in April 2001. The number of ministries was reduced from 16 to 14, the possibility of appointing two ministers without portfolio was introduced, and a new Ministry for Information Society was created. The Law on Government also simplified the procedures for appointment of a government. The related amendments to the Constitution, however, remain to be adopted. Furthermore, new government standing orders were adopted in May 2001, aiming at introducing more efficient co-operation including establishing e-communication between government bodies.

The new Code of Conduct for Civil Servants was adopted by the government in January 2001. It includes provisions on political neutrality as well as on conflict-of-interest situations. A decree aiming at improving transparency and the quality of public services was adopted in March 2001.

The Laws on Civil Servants and on Public Agencies have now been submitted to parliamentary procedure but remain to be adopted.

Slovenia should continue its efforts to ensure that the remaining crucial framework legislation is put in place, as a prerequisite for a professional, impartial, accountable and effective civil service.

A new Minister Councillor to the Prime Minister has been appointed to co-ordinate public administration reform. The Directorate for Organisation and Development of the Administration within the Ministry of the Interior is responsible for public administration reform. Its staff has been increased. The Ministry also has an Academy for Administration offering training to civil servants. The government continues to implement the training strategy for public administration adopted last year. Its aim is to improve the capacity of the Slovenian administration to implement the acquis through training on EU related issues. Over 500 civil servants have had training.

The number of civil servants was increased by about 1,200 last year and amounts to about 30,000.

The Constitutional Court ruled in 1998 that the Koper municipality had to be divided into two because of its mixed urban and rural character. This issue still remains to be settled.

The judicial system

The judiciary continues to have a high degree of independence in Slovenia. Good progress has been made since the last Regular Report in reducing the backlog of pending court cases. The measures introduced by the government in 1999 – 2001 to reduce the backlog of pending court cases have proven effective. This is, however, not the case with the land register where the number of pending cases is still increasing. Improving the functioning of the judiciary was identified as a medium-term priority in the Accession Partnership of 1999.

The legislative measures to speed up court procedures include amendments to the Act on judicial service adopted in May 2001 which aim at rationalising and speeding up the work of the courts. Amendments to the law on offence adopted in March 2001 cancel the necessity for legal protection in small offences, such as traffic accidents.

The Supreme Court and the Government have set up a programme entitled *Herkules* intended to cut backlogs in courts. It includes the appointment of rotating judges in districts to assist overburdened local courts in coping with increased caseloads. The amendments to the Judicial Service Act adopted in May 2001 created the necessary legal framework for implementation of the project.

The number of personnel in the judiciary has been increased in 2000. Altogether 41 new judges, 9 new misdemeanour judges and 14 new state prosecutors have been appointed. There are over 700 judges in Slovenia. Significant investments have been made in modernising the technology available in courts and state prosecutors' offices.

As a result of these measures, the number of pending court cases has continued to decrease for the second year. The latest figures received from the Slovenian government show a drop of about 10% from December 1999 to June 2001. Pending cases of major importance have been reduced by 19%, enforcement-related pending cases by 22%, and other cases by 27%. This progress is impressive taking into account that these figures include all pending cases, also those that cannot be defined as backlog cases. However, cases related to land registry increased by 19%.

The Court Rules were amended in October 2000 to define when pending court cases can be defined as backlogs. According to the Slovenian authorities, the backlog of court cases calculated on the basis of this new criterion amounted to about 240,000 in December 2000 (including 146,000 land registry cases).

Notwithstanding the progress made, in a few courts a significant problem of backlogs still persists. Also, the duration of the judicial procedure in criminal cases has not been shortened in the past few years. About 58% of the criminal cases against adults still took a year or more in year 2000. The judicial procedure for 25% of the civil cases took three years or more.

As regards the training of judges, the Judiciary Training centre, established in 1997, continues to provide training in European Law. About 1,400 judges and other judicial professionals took part in the courses.

In the meantime, the increasing number of pending land register cases gives rise to concern. A project on computerisation of the land register started last year and should be completed by 2004, as a result of which the waiting period for registrations should be reduced significantly.

Anti-corruption measures

As already mentioned in last year's report, problems of corruption appear to remain relatively limited in Slovenia. Progress has been made over the past year in reinforcing the institutional set-up for the fight against corruption.

A general legal framework for anti-corruption measures is in place. The Criminal Code includes provisions concerning corruption. The Code of Conduct for Civil Servants adopted by the

government in January 2001 includes provisions on conflict-of-interest situations. Conflict-of-interest situations are also included in such legislative instruments as the Act on the Incompatibility of Holding Public Office with Profitmaking Activities of 1992. However, preventing conflict-of-interest situations, including in public procurement, should be given more attention.

Slovenia is a member of the Council of Europe Group of States Against Corruption (GRECO). The GRECO report on corruption in Slovenia published in December 2000 noted that the rate of corruption in Slovenia appears low. However, it criticised the lack of coherent government policies to combat corruption and identified some institutional weaknesses. In response, the government appointed a specific co-ordination group in charge of combating corruption in March 2001. The purpose of the group is to strengthen co-operation and information exchange between the different government departments and to co-ordinate the work of the various institutions in this area.

Specific bodies to fight corruption exist, including special anti-corruption units in the police, an Organised Crime Section in the Ministry of the Interior and a group of public prosecutors for special assignments. A National Office for the Prevention of Corruption was set up within the Prime Minister's Office in July 2001. The Office has the task of drafting a national anti-corruption strategy, of drafting new legislation and of directing the work of the co-ordination group for combating corruption.

There have been a few cases of corruption involving senior officials since the last Regular Report. One concerned a former State Secretary in the Ministry of Economic Affairs who was given a three year prison sentence.

Slovenia has ratified the Council of Europe Criminal Law Convention on Corruption and the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. The ratification of these conventions was identified as a short-term priority in the Accession Partnership of 1999. Slovenia has become a full participant in the OECD Working Group on combating bribery of foreign public officials in international business transactions and ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions in September 2001. The Council of Europe Civil Law Convention on Corruption is still in the process of ratification. (see also *Chapter 24 – Co-operation in the field of justice and home affairs*)

1.2. Human rights and the protection of minorities

As mentioned in the previous Regular Reports, Slovenia continues to respect human rights and freedoms. The following section concentrates on major developments since the previous Regular Report.

Slovenia has already ratified the major international human rights instruments (see annex). In March 2001 it signed Additional Protocol 12 to the European Convention on Human Rights prohibiting discrimination on any grounds. No new developments can, however, be reported with regard to the transposition of EC anti-discrimination legislation (*see chapter 13 – Social policy and employment*).

Civil and political rights

Some positive developments can be reported concerning civil and political rights, in particular concerning provision of free legal aid.

Concerns have been expressed over an increase in *police brutality* in Slovenia. These relate to cases of excessive use of force against people in *custody*. There have been some cases of police violence against the Roma. The European Court of Human Rights ruled in November that Slovenia had breached several provisions of the European Convention of Human Rights in the case of an EU national ill-treated by the police in 1995. In October 2000, the Ministry of Interior adopted instructions for dealing with complaints concerning the police.

There are indications that Slovenia has increasingly become a transit country for *trafficking in human beings*.

The Free *Legal Aid* Act adopted in May 2001 introduced free legal aid to socially vulnerable people.

The legal basis of *asylum* in Slovenia is the Law on Asylum adopted in July 1999. Slovenia continued to implement the National Action Plan on Asylum adopted last year which identifies several areas where improvement should be made (for details see *Chapter 24 – Co-operation in the field of justice and home affairs*). Slovenia has made progress in this area overall but should finalise the implementing legislation for the asylum law, create an asylum home separate from the centre for illegal immigrants, and improve conditions in both.

The United Nations High Commissioner for Refugees and NGOs has expressed continued concern about the protracted temporary protection status for persons from Bosnia and Herzegovina, which some have had for a period up to nine years, and the very limited number of approved asylum applications. The temporary status does not give these people the right to work or to receive education.

The implementation of the law on regularisation of the *status of citizens of former Yugoslav republics* has continued, although the processing of the claims was not finalised by the end of 2000 as foreseen by the government. Persons who have lived in Slovenia since 26 June 1991 without interruption, and who have not committed serious criminal offences, can obtain permanent residence. About 13,000 applications have been received and by June this year the procedure had been completed for about 9,000 of these. About 8,600 of these were positive. The majority of the remaining applicants had already received Slovenian citizenship in the meantime.

Freedom of expression and *freedom of religion* are enshrined in the Slovenian Constitution and no particular problems have been noted in this regard.

Some progress has been achieved in *denationalisation* (the process of returning property to persons dispossessed by the Communist regime) over the past year, although the process remains slow. The process of denationalisation is based on the Denationalisation Act of 1991. By September 2001 a decision had been made on 61% of restituted property (compared with

50% in April 2000). This figure refers only to the decisions taken – not decisions implemented⁵. The government decided in February to hire 39 new staff this year to work in this area. The Working Group on denationalisation, comprising representatives of the relevant ministries and an organisation representing former owners of expropriated property, continued functioning.

According to Annex XIII of the Europe Agreement, EU citizens have the *right to buy property* in Slovenia if they have resided in Slovenia for three years. Since the entry into force of the related provisions in early 1999, 59 applications have been submitted, and on 33 of these a decision on reciprocity has been made (status June 2001). 26 of the decisions were positive and the property transaction could thus proceed, and in two cases a property transaction has been registered.

The Office of the *Ombudsman* continues to function well. A new Ombudsman for Human Rights was appointed in February 2001 to replace the previous one who stepped down last year in order to be a candidate in the parliamentary elections. As in previous years, the majority of cases filed with the Ombudsman concern the length of court and police proceedings (32%) as well as administrative procedures (18%). The Ombudsman has also drawn attention to the slow progress in denationalisation.

Economic, social and cultural rights

Overall, some further progress was made with regard to economic, social and cultural rights.

As regards *equal opportunities*, as indicated in last year's Regular Report, the equality of men and women is guaranteed by the Constitution. The mandate of the Women's Policy Office has been widened to cover equal opportunities issues in general and the name has been changed accordingly to The Office for Equal Opportunities. The representation of women in the most senior positions in the economy and politics remains modest. There has been a slight increase in the number of female parliamentarians (from 8% to 13%) – there are three female ministers in the government. Slovenia has signed the Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women (*see also chapter 13 – Social Policy and Employment*).

The *rights of disabled* people are guaranteed in the Constitution. The Government Office for the Disabled with nine staff is responsible for monitoring the position of the disabled and for assisting in drafting legislation. The most protected category of the disabled is the war victims, notwithstanding the fact that those disabled since birth are most vulnerable. By international standards protection is average. Challenges include measures to secure employment, and allocation of resources to the most needy. The government adopted a National Social Assistance and Services Protection Programme last year addressing some of these concerns.

Trade unions continue to be active. They participate in the process of adopting relevant legislation in the parliament and in decision-making on wage, labour and pension policies. The government has also involved the trade unions in the debate on EU accession. The right to strike is provided for in the legislation.

⁵ The figure is based on the value of property.

Slovenia ratified *the Revised European Social Charter* in June 2001 undertaking to be bound by the Additional Protocol providing for a system of collective complaints. The Council of Europe is assisting Slovenia in the implementation of the Charter and in preparing its first report.

Minority rights and the protection of minorities

The major international instruments in the field of protection of minorities have been ratified.

The minorities recognised in the Constitution (Hungarian, Italian, Roma) are represented on the Government Commission for National Communities and on the Commission for the Protection of the Roma. The Government Office for National Minorities monitors the implementation of the legislation for protection of minorities and provides funding related to minority language media and culture.

The Slovenian Constitution provides special rights for the Hungarian, Italian and Roma minorities. The Hungarian and Italian minorities are guaranteed the right to education and schooling in their own languages and Hungarian and Italian are recognised as official languages in areas where these communities reside. They also have the right to be directly represented in the Parliament, where they are allocated a seat each. The situation of the Hungarian and Italian minorities can be considered as good and the protection of their rights as comprehensive.

The Roma community in Slovenia comprises about 6,500 to 10,000 people. The special status and rights of the Roma community are guaranteed in the Constitution (Article 65) Rights of the Roma community are covered in sectoral legislation, for instance the Law on local self-government, the Law on local elections, and the Law on organisation and financing of education. In April 2001, the Constitutional Court ruled that some provisions of the Law on local government were in breach of the Constitution as it did not provide an adequate legal basis for Roma candidates to run in local elections. The provisions of the legislation have not been fully translated into action, as many Roma have not officially registered and the total number of registered Roma therefore stays under the legislative limit. Some of the laws only apply to those termed 'autochthonous' Roma⁶ – excluding the 'non-autochthonous' Roma even if they are citizens.

Many members of the Roma population are among the poorest households in Slovenia, with 74% of the community being recipients of social benefits and 87% not being in regular employment. The government adopted a Programme on Equal Opportunities of Employment for the Roma last year to improve employment opportunities. While this is a positive development, there is still a need for policies promoting Roma socio-economic integration, especially in the areas of employment and health. Sustained efforts are also required in the area of education. There have been some cases of discrimination against the Roma.

1.3. General evaluation ⁷

In its 1997 Opinion, the Commission concluded that Slovenia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the

⁶ The term 'autochthonous' is not defined in law.

⁷ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Slovenia continues to fulfil the Copenhagen political criteria.

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

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

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

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

2. Economic criteria

2.1. Introduction

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

"Slovenia can be regarded as a functioning market economy"; it "should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that rigidities in the economy are reduced".

This finding was confirmed in the 1998, 1999 and 2000 Regular Reports. In its 2000 Regular Report, the Commission found that:

"Slovenia can be regarded as a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it continues to make further progress on structural reforms"

In examining the economic developments in Slovenia 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 pressures and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion, as well as in the previous regular reports.

2.2. Economic developments

The macroeconomic situation in Slovenia has remained generally positive in 2000, but weakened in 2001. GDP growth, at 4.6%, although somewhat lower than in 1999, remained robust. With domestic demand subdued, the main growth impetus was provided by rapid export expansion, while real import growth slowed down. The current account deficit decreased somewhat, despite the unfavourable development in the terms of trade in 2000. In the first six months of 2001, GDP growth did slow down while the current account showed only a small deficit, despite lower growth in the EU. The fiscal deficit, at 1.4% of GDP, or 2.3% according to harmonised EU standards (ESA95), deteriorated somewhat in 2000, albeit from a low level. Unemployment dropped slightly, to historically low levels. Inflation, on the other hand, increased markedly, in first instance pushed by high oil prices and accelerated nominal depreciation and then further sustained by widespread indexation and a largely accommodating monetary policy

Main economic trends							
Slovenia		1996	1997	1998	1999	2000	2001 latest
Real GDP growth rate	per cent	3.5	4.6	3.8	5.2	4.6	2.9 Jan-June
Inflation rate ⁸							
- annual average	per cent	9.9	8.3	7.9	6.1	8.9	9.1 August
- December-on-December	per cent	9.0	8.8	6.4	8.1	8.9	8.8 August
Unemployment rate, end-year							
- ILO definition	per cent	7.3	7.4	7.9	7.6	7.0	5.9 P Q2
General government budget balance ⁹	per cent of GDP	0.3	-1.2	-0.8	-1.3	-2.3	:
Current account balance	per cent of GDP	0.2	0.1	-0.7	-3.9	-3.3	:
	million ECU/euro	25	10	-131	-735	-645	-55 ⁹ Jan-July
Foreign debt							
- debt export ratio	per cent	25.2	30.9	37.5	46.1	49.1	:
- gross foreign debt	million ECU/euro	2,087	2,854	3,719	4,545	5,668	:
Foreign direct investment in flow							
- balance of payments data	per cent of GDP	1.0	2.1	1.3	0.9	1.0	:
	million ECU/euro	153	331	221	170	196	214 ¹⁰ Jan-July

The pace of the restructuring process remained slow, although some progress has been made through the preparation of privatisation plans and timetables. Privatisation by the

⁸ PROXY HICP since 1996 (see methodological notes)

⁹ Source: National Bank

¹⁰ Source: National Bank

Slovene Development Corporation (SDC) moved forward only slowly. In April 2001, the government decided to liquidate the SDC and privatise the firms under its control by the end of 2001. A proposal to provide a legal framework for the privatisation of insurance companies was annulled by the Constitutional Court in May 2001. This means that the opening-up of the still closed insurance sector will be delayed further. The banking sector is still marked by domination by two state-owned banks and little foreign competition. However, the privatisation process has now started. In May 2001 the government adopted a programme for partial privatisation of these two banks, starting in 2001. The absence of significant privatisation contributed to the marginal foreign direct investment (FDI) inflows in 2000. However, in early 2001 inflows increased, albeit from a low level, as a result of some foreign acquisitions in the banking and telecommunication sectors. Restructuring and privatisation in the steel sector continued and a privatisation plan was prepared for the Metal Ravne Plant.

Main indicators of Economic Structure in 2000		
Population (average)	thousand	1,990
GDP per head ¹¹	PPS	16,100
	per cent of EU average	72
Share of agriculture ¹² in:		
- gross value added	per cent	3.2
- employment	per cent	9.9
Investment-to-GDP ratio ¹³	per cent	26.7
Gross foreign debt/GDP ¹⁴	per cent	29.0
Exports of goods & services/GDP	per cent	59.1
Stock of foreign direct investment	million euro	2,676 ¹⁶
	euro per head ¹⁵	1348 ¹⁷

¹¹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹² Agriculture, hunting, forestry and fishing.

¹³ Data refer to Gross fixed capital formation as % of GDP.

¹⁴ Estimated.

¹⁵ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁶ Data refer to 1999.

¹⁷ Data refer to 1999.

Already starting from relatively high levels, Slovenia has been marking a trend of relatively rapid and steady catching up with the EU average. In 2000, GDP per capita in purchasing power standards stood at 71.6% of the EU average as against 64.3% in 1995. The economic activity rate, at 57.9%, is somewhat higher than 1996 level, after increasing slightly in the intervening years. The Employment rate, after following a similar movement, was at 62.7% in 2000 while the unemployment rate has decreased slightly and was 7.0%. Long-term unemployment has increased to 62% from 52% in 1996, principally among older and middle-aged low-skilled workers. At the same time, the unemployment rate for persons younger than 25 decreased from 18.1% in 1999 to 16.8% in 2000. There is a slight gap between the male and female unemployment rates with 6.8% for males against 7.3% for females in 2000, but they have moved in opposite directions – the female rate has been increasing and the male one decreasing. Slovenia has relatively small but persistent regional disparities, where poorer regions continue to register declining population and higher unemployment.

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

There is a clear consensus among political parties of the coalition government and the opposition about current and medium term policy priorities in Slovenia, although implementation is often slow. Continuing progress on framework legislation can be noted, while there has been some slippage concerning the timetable of reforms. There is increasingly good co-ordination between policy departments. The government economic agency (IMAD) continues to play a key role in the policy development process. In July 2001 the government adopted a new medium-term development strategy and policy guidelines up to 2006, based on improving competitiveness and human capital. This strategy was the basis for the Pre-Accession Economic Programme, which has also been adopted by the government, and which was submitted to the Commission on the 1 October 2001.

GDP growth of 4.6% in 2000 was still robust and has continued into 2001. Growth was almost exclusively driven by export expansion, while private sector domestic demand decelerated significantly following the rapid growth in the previous year, linked to the introduction of VAT. Domestic investment in particular saw a sharp cut back after steep growth in 1999. In the first six months of 2001 GDP growth slowed down somewhat to 2.9% compared to the first half year in 2000. This was mainly due to a further cutback in investment while export growth remained fairly robust so far despite a slowing of growth in the EU, Slovenia's major trade partner.

Total employment increased somewhat, while unemployment continued to fall to the lowest rate recorded so far. Unemployment (ILO definition) declined from 7.6% in 1999 to an estimated 5.9% in the 2nd quarter of 2001. The participation rate has remained constant at close to 58% of the labour force.

Inflation has accelerated in 2000. Consumer price inflation (CPI) increased from an average of about 6% in 1999 to 8.9% in 2000 and the harmonised consumer price inflation (HICP) increased similarly. Higher inflation was initially due to direct and indirect effects of high energy prices, exacerbated by the dollar appreciation. However, the accommodating monetary policy stance, the subsequent increases of administered prices and the widespread indexation of wages and pensions further contributed to inflationary pressures. Inflation has persisted in the first 8 months of 2001, and in August 2001 stood at 9.1% annually.

Rising inflationary pressures did not lead the central bank to conduct a more restrictive monetary policy because of concern about external competitiveness. For 2000, expansion of broad money (M3), at 16.3%, was kept within the broad target rates of 12-18%, thereby in effect accommodating inflationary pressures from the 1999 VAT increases, the energy price rises in 2000 and the subsequent pass-through of inflationary pressures via the indexation of wages and prices. Monetary policy remained relatively loose in early 2001, and M3 growth at 20.3% annually in the 2nd quarter overshoot the upper target rates by 3.7 percentage points. The nominal effective exchange rate dropped by 8.7% in 2000. In the first seven months of 2001 the pace of nominal depreciation slowed down to 6.9 %, linked partly to positive current account developments.

In 2000 the government budget deficit unexpectedly rose to 1.4% of GDP. The consolidated general government deficit was 2.3%, according to harmonised EU standards (ESA95). Although still at a low level, this development raises some concerns. Fiscal policy has generally been prudent but the budget is still characterised by a high share of fixed commitments while various expenditure pressures, for example from rising public sector wages, complicate efforts to keep the budget deficit under control. The deficit mainly resulted from higher expenditure on debt reimbursement and wages and pensions (linked to the unforeseen high inflation developments and pre-election spending), as well as lower government revenues resulting from muted domestic demand. Reform of the public sector wage policy to contain wage pressures would at least partly contribute to keeping expenditure under control. According to ESA95 data, the primary surplus (balance excluding interest payments) dropped in 2000, although it just remained in surplus at 0.1% of GDP. The overall deficit in 2000 is the sum of a 1.9% of GDP deficit in the central government, a balanced budget for local government, and a small social security funds deficit of 0.3%. The general government gross debt ratio in 2000 rose somewhat further to 25.8% of GDP, with the share of foreign debt overtaking the share of domestic debt for the first time. The relatively moderate indebtedness of government still generated interest charges of 2.4% of GDP.

The government has started to implement a thorough reform of budgetary procedures and financial management of government activities. This includes a move away from annual budget planning toward a medium-term fiscal framework. This procedure was already partly used for the 2001 budget and the budget for 2002-2003. Taking into account the relatively short time since the introduction of the reform, it has already resulted in increased transparency of government revenues and expenditures. Nevertheless, some delays and difficulties occurred in the initial phases and the full implementation of new procedures will take some time. The budget target for 2001 is set at a deficit of 1.1% of GDP, and the budget results achieved so far this year (first 8 months) indicate that this target is on track. However, in order to realise the medium term fiscal targets of budget balance, a sustained effort to deal with expenditure pressures will be required.

The implementation of pension reform is proceeding, following the entry into force of the new Law on Pension and Disability Insurance in January 2000. Although the effects of the reform were still limited in 2000, it has already had a significant effect on the rights and obligations of insured persons. Since its implementation, budget expenditure in this area has been reduced by nearly 0.7% of GDP. Nevertheless, further reform would be needed to achieve long-term budgetary sustainability. Slovenia also still needs to start implementing the planned health reforms to alleviate the burdens on the budget and ensure long-term sustainability.

The current account deficit decreased to 3.3% of GDP in 2000. Total exports expanded strongly by 12.7% in real terms, despite a growth slowdown in the EU. Market opening and expansion in the other successor states of the Socialist Federal Republic of Yugoslavia also pushed exports. Export growth was supported by a continuing real depreciation of the tolar. As domestic demand stalled, real import growth slowed down to 6.1%. These positive developments in volume terms did not lead to a significantly lower current account deficit because of the unfavourable terms-of-trade development in 2000, a result of the higher energy prices and dollar exchange rate. The current account deficit was mainly financed through debt-creating capital inflows, as there were no positive shifts as regards FDI and portfolio equity investments. FDI inflows remained marginal in 2000, stagnating at the level of 1999 (€ 196 million, or 1% of GDP), but the first seven months of 2001 saw an increase in FDI. The inflow of foreign loans prevented total foreign exchange reserves from falling, but led to increased external indebtedness. By the end of 2000, external debt exceeded € 5.6 billion or 29% of GDP, putting Slovenia among the medium-level debt countries. While these numbers are not yet alarming, the direction of the developments is a cause of concern for the medium term.

Fiscal policy in 2000 has been somewhat expansive, while monetary policy did not forcefully address inflationary pressures. The relatively high investment and savings rates of 26.7% and 23.5% of GDP, respectively, brought the savings-investment gap, or current account deficit, to 3.3% of GDP. Fiscal policy contributed to a stable macro-economic environment although some worrying slippage in budgetary management did occur. Given that a relatively high share of expenditure is mandatory, there is relatively little leeway for fiscal policy to deal with external shocks. A more flexible fiscal framework will therefore be needed in the medium term. The monetary policy stance has remained mostly accommodating to inflationary pressures. The system of managed floating with continuous nominal devaluation to keep the real exchange rate constant in an inflationary environment has in turn also contributed to inflation. In addition, this system will become harder to operate now that Slovenia is progressing with substantial liberalisation of capital movements.

Price liberalisation is well advanced. The share of administered prices in CPI stood at 12.7% in 2000. Products and services currently under government price control are mainly in energy, basic postal and communal services, public transport and basic telecommunication services. Price liberalisation continued and a number of prices were liberalised for postal services, milk, and electricity for certain consumers. Although price formation remains under government control, soft price control mechanisms have been introduced for energy products by formulating pricing models that establish a more direct link with world market prices. Prices for telephone services were increased, narrowing the gap with average EU prices.

The state is still prominently present in the economy. The private sector share in the economy is now estimated at 64% (1999) of Gross Value Added (against an older estimate of

57% in 1998). Despite reiterated plans to take concrete measures to reduce the role of the state in the economy, the presence of the state has so far remained extensive, and by the end of 2000 state institutions still owned numerous companies. The Slovene Development Corporation (SDC), the Slovene Indemnity Fund and the Capital Fund owned 28.2% of companies. However, some progress has been made in introducing concrete privatisation plans

Further privatisation is proceeding only slowly, however, privatisation plans were introduced and preparations intensified. The Government's coalition agreement, signed in December 2000, set a timetable for structural reforms. It scheduled rapid liberalisation and restructuring measures, particularly in 2001. These included, *inter alia*, a concrete privatisation plan for banks with clear deadlines to commence in 2001, privatisation of insurance companies, finalisation of privatisation in the steel sector by end 2001, and the liberalisation of telecommunications and other state monopolies. In addition, the Ministry of Economy is to draft a plan for the termination of the SDC by Autumn 2001, with the aim of ceasing operations by the end of 2001. After closure, some of SDC's activities, such as the protection of interests of denationalisation claimants, will be transferred to other state institutions. The proceeds will be used to cover part of the privatisation gap. The actual implementation of the coalition agreement would represent a major breakthrough for Slovenia's economy, after years of delayed reforms. Although preparations for the reforms are ongoing, there has already been some slippage in the timetable.

The business climate has improved, but problems remain. After years of high growth in enterprise creation, followed by a slowdown in 1999, the number of firms in 2000 increased marginally by 0.4% to nearly 38 000. Transaction costs of setting up business are high relative to the small size of the domestic market, while labour markets are rather rigid. The still relatively underdeveloped capital markets and low level of competition in the banking sector keep costs high for raising capital locally. Bureaucratic procedures and difficulties in buying land for construction, obtaining site development approvals and work permits, and hiring and firing employees also deterred domestic and foreign investors and remain an obstacle to the further development of the economy. To partly address these problems, in 2000 the government adopted a programme for promoting foreign investments by simplifying procedures on building permits, registration of companies and for employment of foreign citizens. The programme was revised in July 2001. In April 2001, it discussed the "anti-bureaucracy programme" adopted in 1999 (cutting red tape for investments) and set a timetable for implementation of the measures. Most of the programme's aims are based on the 1999 FIAS/World Bank findings. However, it is especially the full and timely implementation of the government programme on privatisation and liberalisation in sectors in which it is still strongly involved (such as banking, insurance, utilities) that would improve business conditions and attract more FDI.

There have been some improvements concerning bankruptcy procedures but they remain slow and relatively limited in number. Following the implementation of the Financial Operations of Companies Act (FOCA) in July 1999 improvements were made in the deletion of legal entities from the court register and through introducing streamlined procedures for winding up companies no longer actively in business. The application of some of the provisions of the Act was postponed since there were fears that immediate application might have serious economic consequences due to widespread insolvency, over-indebtedness and capital inadequacy.

The legal system is well developed and firmly in place. Backlogs have diminished. Laws and contracts are enforced and the efficiency of courts has been improving.

The financial system is sound but still operating in a relatively sheltered setting. Restructuring of the banking sector has progressed somewhat, but further work remains. After consolidation in previous years, the number of banks remained unchanged in 2000. In May 2001, a foreign strategic investor took a majority share in SKB Banka, Slovenia's 3rd largest, and biggest private, bank. The May 2001 decision of the government to adopt a privatisation plan, with a timetable for the two state-owned (and largest) banks, NLB and NKBM, was an important step forward. For NKBM, a majority share will be sold to a strategic investor in 2001. For NLB, the largest bank, with a consolidated market share of 44%, only a minority share will be sold by March 2002. The state intends to keep a blocking minority share in both banks, which could diminish the interest of potential key investors. The NLB is still wary of letting in foreign investors and intends to use the small and relatively underdeveloped local stock market to raise needed capital. Large international investors have nevertheless shown interest in both banks so far.

Much remains to be done to stimulate competitive conditions in the banking sector. Nevertheless, there are some signs of increased domestic competition. NLB withdrew from an inter-bank agreement that regulates interest rates to set up its own daily interest rates, causing interest margins to decrease. The number of foreign branches is expected to increase further after the entry into force of the Banking Act. This should give impetus to consolidation in the sector. The total assets/GDP rose to 80.5% by the end of 2000, still far below the EU average but a satisfactory increase considering it stood at 70% in 1997. The level of financial intermediation stood at 39.4% in 2000. Pre-tax profits increased by 50% in 2000, although this rise is partly due to the previous losses registered by the SKB bank in 1999. However, a large part of these positive results is due to indexation clauses (where assets are indexed but deposits of less than one month are not), which at least partly ensure positive business results regardless of actual efficiency. De-indexation would represent one important element to help increase competition in the sector. The framework for prudential supervision of the financial sector has been reformed to make it more consistent with international best practices and EU acquis; however, some gaps still remain, partly resulting from the interconnectedness of the financial system. These shortcomings have been recognised by the government and it has prepared an Action Plan to address these issues.

The insurance sector remains even more closed and in need of restructuring than the banking sector. There has been a lack of progress with privatisation, although some structural changes are ongoing in the sector. Competition among the thirteen insurance companies and three reinsurance companies operating in the insurance sector has increased, and the process of consolidation is starting. Because the market share of the largest insurance company is still 41%, competition has increased more by the introduction of new insurance products than by competition among different companies. Privatisation was to take place through the law on ownership transformation of insurance companies. This law would determine the share of socially-owned capital in insurance companies to be transformed into State capital and then to be privatised. However, in May 2001 the Constitutional Court annulled the validity of the law because it considered the provisions related to the definition of public and private capital to be in violation of private shareholders' rights. This in effect means that no progress at all was achieved in the privatisation of insurance companies in the past year. Privatisation cannot go ahead until a new law is adopted.

The stock market in Slovenia is still quite small and underdeveloped. Despite modernisation introduced in 2000, turnover at the Ljubljana stock exchange (LJSE) increased only marginally by 1.5% in 2000. However, in the first six months of 2001, the total turnover of the LJSE showed a 15.6% increase over the same period in 2000. The share of foreigners in the trade volume on the LJSE was only between 1 and 2%, both in 2000 and in the first half of 2001. Market capitalisation stood at 27% of GDP in 2000, about half of the EU average. The LJSE has developed regional links and co-operates with stock markets in South Eastern Europe and, at the end of 2000, it signed a co-operation agreement with the London Stock Exchange. So far, though, firms do not use the LJSE much to raise capital locally because of high costs. Structural problems that deterred large investors include tax discrimination against equities, remaining barriers for foreign (and domestic) investors, and the slow privatisation and restructuring process. Mandatory custody accounts for non-residents purchasing securities were abolished as of 1 July 2001. The LJSE expects a boost to its activities from the privatisation of banks, insurance companies and telecommunications.

The financial sector appears generally robust, but capital liberalisation and increased domestic and foreign competition are changing the operating environment. Remaining capital restrictions on short-term capital flows have been reduced further. In June 2000, the Bank of Slovenia adopted a schedule for the final liberalisation of capital flows. According to the schedule, the opening of Slovenia's capital market will be completed by January 2003. Short-term capital flows have so far not been liberalised out of fear for potential destabilisation of the financial system from massive capital movements of a speculative nature. Ongoing restructuring of financial markets and full implementation of the planned restructuring and privatisation of financial institutions is a necessary precondition to prepare for the forthcoming full liberalisation of capital flows. In addition, it would provide a better environment for the conduct of monetary and exchange rate policies.

The capacity to cope with competitive pressure and market forces within the Union

The 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 before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Slovenia is a functioning market economy. It has a solid track record of macroeconomic stability, reasonable fiscal control, a sustainable current account balance, still relatively low external debts and a high degree of international economic integration. This creates basic conditions for coping with competitive pressures. The remaining challenges are to develop requisite instruments to manage macroeconomic policies in a more open environment, bring down the relatively high inflation rates, and to strengthen and privatise the financial sector.

The labour force is well educated and has relatively high productivity. Labour productivity has been catching up with EU levels and in 1998 stood at 71% of the EU average. The reallocation of labour from low-value added to activities with a higher technological content still

poses challenges in terms of matching qualifications. The government has introduced employment action plans, both for the short (2000-2001) and medium term, which follow EU guidelines. The latter, the 'Strategic Objectives of Labour Market Development up to 2006' has passed its second reading in Parliament. It sets a number of long-term strategic goals for higher education levels, active employment programmes for the unemployed, reduction of regional differences, and aims to reduce the national unemployment rate below 6% within the period of 2000-2006.

Slovenia has a well-developed infrastructure and high investment rates. Investment growth rates on average significantly outpaced GDP growth, leading to steadily increasing investment shares in the economy. In 2000, the investment/GDP ratio fell somewhat to 26.7%, from 27.4% in the previous year. FDI inflows remained limited in 2000, not surpassing the low 1999 levels. As a percentage of GDP, FDI has contributed only marginally to investment and in 2000 again did not reach higher than 1% of GDP. However, FDI inflows have strongly increased in the first seven months of 2001 albeit from a low level, with foreign acquisitions in the telecommunications and banking sector.

Restructuring of the enterprise sector progressed further. Enterprise restructuring has continued and companies have on average been improving their performance. The steel restructuring programme appears to be proceeding well, and restructuring of the textile, clothing, and leather and footwear industries is also ongoing. For the third consecutive year, the corporate sector as a whole made a net profit in 2000, although lower than in 1999. Productivity, capital and value added per employee have all increased strongly in the last four years. In terms of productivity, the best results were recorded among publicly traded companies with concentrated (foreign or domestic) ownership, while state-owned companies were the least profitable. This again confirms the important role FDI can have in restructuring local enterprises. Traditional industrial activities in low value added rather than in upgraded higher value added production still dominate the industrial landscape. In July 2001 the government adopted a new strategy for economic development, emphasising the transition to a knowledge-based society, increased restructuring and competitiveness of companies, the development of an efficient financial system and economic infrastructure and reducing regional disparities.

SMEs are becoming increasingly important in the economy. The role of SMEs has substantially increased over the last ten years. By 2000, SMEs accounted for 31% of total production and an employment share of 42%. The situation in the SME sector has consolidated in recent years and no significant changes in the structure or types of business could be recorded last year. Although the ratio of over 50 enterprises per 1000 inhabitants is close to the EU average, Slovenian SMEs have not yet reached the level of competitiveness and efficiency of EU SMEs due to their unfavourable sector structure and low added value per employee. Lack of business knowledge and entrepreneurial tradition as well as a negative attitude towards co-operation are weaknesses for SMEs, while improving access to finance and removing administrative obstacles would support SME development.

The role of government policy in shaping competitiveness of the economy is still quite large but slowly changing towards a more market-led approach. Slovenia has a relatively liberal trade regime and continues to liberalise its trade policy. In allocating state aids, Slovenia is now not far from the EU average and there has been progress in improving transparency and monitoring. However, there should be more information on the activities of the Slovene Development Corporation. The Competition Protection Office continued to implement anti-trust

rules but the rulings and fines have not been enforced in courts. The level of fines remains low and is an insufficient deterrent. Industrial policy has been largely brought in line with EU industrial policy. In 2001 a Strategy for SME and Entrepreneurship Development in Slovenia for the period 2001-2005 was drafted, to harmonise Slovene strategic guidelines with EU Enterprise Policy. Adoption is envisaged in autumn 2001.

Trade integration with the EU remains at a high level. As a small open economy, the trade/GDP ratio is high at 105% for 2000. The EU is by far Slovenia's most important trade partner. In 2000, the EU represented 64% of Slovenia's exports and 68% of imports, a slight drop from the previous year. As the conditions in Slovenia's traditional regional markets have stabilised, trade with neighbouring countries – especially Croatia – has been developing rapidly. The other successor states of former Yugoslavia accounted for 16% of exports and 6% of imports in 2000. Main export product categories include machinery and transport equipment. Export growth is mainly pushed from firms with foreign or strategic owners.

External competitiveness has been maintained in an inflationary environment, albeit in the context of a managed float that allows compensation for, and contributes to, price increases. The real effective exchange rate (CPI weighted) depreciated by 2.9% in 2000. Despite an improvement of both price and cost competitiveness of Slovenian manufacturing, a result of high labour productivity growth and modest wage rises, Slovenia's market shares in its main trade partners continued to decline slightly. This could be an indication of low export product and market competitiveness related to slow restructuring.

2.4. General evaluation¹⁸

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

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

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

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 2000 Regular Report on Slovenia'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 implements its objectives. Alongside an evaluation of relevant developments since the 2000 Regular Report, this section seeks to provide an overall assessment of Slovenia's ability to assume the obligations of membership, and of what remains to be done. This section is structured to follow the list of twenty-nine negotiating chapters, and incorporates an assessment of Slovenia's administrative capacity to implement the *acquis* in its various aspects. Slovenia's progress in translating the *acquis* into its official language is assessed in a separate section.

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, in Agenda 2000 the Commission underlined the importance of effectively incorporating Community legislation into national legislation, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

The European Council in Santa Maria da Feira and in Gothenburg in June 2000 and June 2001 respectively recalled the vital importance of the applicant countries' capacity to implement and enforce the *acquis*, and added that this required important efforts by the applicants in strengthening and reforming their administrative and judicial structures. Building on the assessment of Slovenia's administrative capacity provided in the 2000 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 2000 Regular Report, the Commission concluded that :

"Since the last Regular Report, Slovenia has made good overall progress in transposition of the acquis. It has made significant progress in some key areas, such as environment, agriculture, free movement of goods, freedom to provide services, and energy. In these areas the preparations for membership are already well advanced. However, only limited progress has been made in other areas, notably on free movement of persons, telecommunications and the audio-visual acquis. Slovenia's administrative capacity has been reinforced, however, in some areas it still needs strengthening.

Slovenia has made good progress since the last Regular Report in adopting legislation in the key areas of the internal market *acquis*. Substantial progress has been made in establishing the legislative framework for *free movement of goods*, including in public procurement, and Slovenia should now concentrate on the timely and complete enacting of the remaining legislation and the strengthening of the institutional set-up. Significant progress has also been made in the area of *freedom to provide services*. With the adoption of the insurance

¹⁸ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

legislation, a large part of the legislative work in this area has now been completed. The legislative framework for *free movement of capital* has now been put in place but Slovenia should continue eliminating the remaining administrative restrictions to capital movement. Little progress has been made since the last Regular Report concerning *free movement of persons*, and further legislative efforts are required in this area. The legislative framework is also quite advanced in the area of *company law*, but some improvements are still needed, for instance concerning intellectual and industrial property rights.

Slovenia has completed the legislative and institutional framework for *competition policy* with the adoption of the State Aid Control Act and secondary legislation as well as setting up of the State Aid Monitoring Commission, and efforts should now be focused on establishing a good track record of enforcement in this area. Steady progress has been made in the *taxation* area, except for the failure of Slovenia to fulfil its commitment on closure of the duty free shops.

In the *transport* sector, the progress has been uneven and the overall situation is mixed: while good progress has been made in the area of land transport, the air and maritime transport areas are characterised by delays in adoption of key legislation in the Parliament. Slovenia has made good progress over the past year in the *energy* sector by setting up the Energy Agency and adopting some key legislation.

Very little progress has been made in the *telecommunications* and *audio-visual* sectors. The Mass Media Law providing the framework for alignment in the audio visual sector still remains to be adopted. The Law on Telecommunications has not been adopted yet and the supervisory authority for the telecommunications sector remains to be set up.

Good progress has been made in *agriculture* sector in particular through the adoption of the Agriculture Act and the establishment of the Agency for Agricultural Markets and Rural Development. Legislative alignment in the phyto-sanitary and veterinary sectors should be continued. Slovenia has advanced well with adoption of legislation in the *environment* sector, and focus should now be set on implementation and enforcement.

The good overall progress of the previous year has been continued in *Justice and Home Affairs*, where the legislative framework has been developed further. However, efforts are still needed in border control, and this remains a priority to be tackled.

In general, Slovenia's *administrative capacity* for implementation of the *acquis* has been enhanced. Since the last Regular Report, significant progress has been made with the establishment of the supervisory and implementing institutions in the areas of state aids, energy and agriculture, and separation of the institutions for standardisation, accreditation and certification. For telecommunications and data protection, independent regulatory agencies still remain to be established. Attention should now be focussed on strengthening the administrative capacity in some particular areas such as the local level in the environment sector, border control, public procurement, insurance supervision.

Slovenia has met a significant number of the short-term Accession Partnership priorities, especially in the areas of the economic criteria, transport, environment, employment and social affairs. In other areas the priorities have been met partially. Slovenia has also already started to implement a number of medium-term priorities."

3.1. The chapters of the *acquis*

As indicated, the review of Slovenia's ability to assume the obligations of membership that is below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called "four freedoms", the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Slovenia has continued its steady progress in this area since the last Regular Report.

Progress has continued concerning **horizontal and procedural measures**, notably as regards the *principles of the New and Global Approach*, on the basis of the legislative framework adopted last year. The Slovenian Accreditation institute (SA), which was founded in 2000 and is a full member of European Accreditation, started to operate independently in May 2001. Until then it had relied on the support of the Standards and Metrology Institute of Slovenia (SMIS). The Slovenian Institute for Standardisation, founded in 2000, also started to operate independently in September 2001 with 26 staff. The accreditation, certification and standardisation functions performed until now by SMIS have now been effectively separated. At the end of June 2001, 27 bodies had been accredited in accordance with the relevant standards from the EN 45,000 series, including 11 calibration laboratories, 11 testing laboratories, three certification bodies and two module-A inspection bodies. As regards *standardisation*, Slovenia has continued making progress. At the end of 2000, it had adopted 75% of all CEN standards, 70% of all CENELEC standards, and 30% of all ETSI standards. In terms of harmonised standards these rates amount to 95% for both CEN and CENELEC and 60% for ETSI standards. *Market surveillance* was slightly reinforced, notably the Trade Inspectorate which received 11 new inspector posts and conducted training with foreign assistance. In 2000 the Trade Inspectorate conducted 9257 inspections, noted 5408 infringements, which led to judicial proceedings in 93 cases. Of the 6363 inspections conducted in 2000 by the Labour Inspectorate in the field of safety, 1289 cases involved deficiencies in periodical examinations and 401 cases technical defaults. In 162 cases the use of equipment was prohibited until the irregularities were solved. No court penalties have been enforced yet.

No particular developments occurred since the last Regular Report concerning the *notification procedures* for standards and technical regulations, movement of goods between member states ("strawberry regulation"), *safety checks at external borders* and the *interchange of data between administrations*.

Substantial progress has been made in **sector specific legislation**. In the areas covered by the *New Approach Directives*, concerning *recreational craft*, a significant step was taken in March 2001 with the adoption of the Maritime Code, which is supposed to provide the legal framework for transposition of the directive. Progress continued in the field of *legal metrology*. The directives on measurement units were implemented on the basis of secondary legislation adopted in March 2001, and the directives on automatic weighing instruments for single weighing were implemented on the basis of secondary legislation adopted in May 2001. Secondary legislation was adopted in September in the areas covered by the Old Approach

sector specific metrology directives. Secondary legislation was published in June 2001 laying down the conformity assessment procedure to be followed by the Metrology Institute of the Republic of Slovenia and determining the markings and certificates.

For *electrical equipment*, the directive on equipment used in potentially explosive atmospheres (*ATEX*) was partly implemented in October 2000 through secondary legislation. It should come into force in mid-2003 or at the latest by accession. Concerning *medical devices*, secondary legislation was adopted in September 2000 on the basis on the Act on Medicinal Products and Medical Devices. It is meant to implement the directive. In the area of *gas appliances*, secondary legislation was adopted in October 2000, based on the energy act, implementing the directive on appliances burning gaseous fuels followed in September by a decision on the recognition of the type examination certificates concerning EC products.

Progress has continued in the area of *construction products* with the adoption in January and June 2001 of secondary legislation based on the construction products act, providing for partial implementation of the general provisions of the directive, in areas such as essential requirements, conformity assessment, and labelling. The adoption of the harmonised European standards and European technical approvals covering categories of products started in May 2001 with regard to cement.

In the area of radio and telecommunications terminal equipment (R&TTE), a first step was taken with the adoption in April 2001 of the Telecommunications Act. However, a number of improvements as well as comprehensive secondary legislation will need to be introduced in order to complete the transposition of the directive.

In the areas covered by *old approach directives*, the sector for *motor vehicles* was transferred in May 2001 from SMIS to the Directorate for Roads of the Ministry of Transport where it will perform the type-approval of vehicles. Secondary legislation concerning devices for connecting vehicles was enacted in December 2000.

In the area of *foodstuffs*, Slovenia continued to adopt secondary legislation based on the act regulating the sanitary suitability of foodstuffs and products and materials coming into contact with foodstuffs and on the Agriculture Act. This includes rules on labelling official control, on spreadable fats, on diet food, on extraction solvents, as well as on the quality of sugar, fruit juice, marmelade and jam, adopted in December 2000. In terms of institutions, a Foodstuffs and Nutrition Council was established in March 2001 in the Ministry of Health in order to obtain the advice of experts when implementing the legislation in this area. (*see also chapter 7, agriculture*)

Concerning *chemicals*, some progress took place with the adoption in September 2000 of secondary legislation which is meant to implement the *acquis* on drug precursors, the adoption in July and November 2000 of secondary legislation concerning good laboratory practice (GLP), and the adoption in March 2001 of secondary legislation implementing the *acquis* on dangerous substance and preparations. The Rotterdam Convention on Prior Informed Consent (PIC) procedure for certain dangerous chemicals and pesticides was implemented through secondary legislation adopted in June 2001. The Government established in January 2001 an inter-ministerial commission for the safe handling of chemicals in order to programme and co-ordinate analyses and actions in this sector. The remaining areas to be covered principally concern explosives, detergents and fertilisers.

In the area of *pharmaceuticals*, Slovenia has achieved significant progress since the last Regular Report by adopting a large part of the required secondary legislation based on the Act on Medicinal Products and Medical Devices of November 1999. However, the regulatory data exclusivity over clinical trials and test data supporting applications for marketing authorisations, which was postponed until 31.12.2002 has not yet been reintroduced. As regards medicinal products for veterinary use, Slovenia has started to issue secondary legislation, regarding the exceptional use of medicinal products for the treatment of animals, and the classification, prescription and administering of these products, and on good laboratory practice in the field of veterinary medicinal products.

Further progress towards alignment with the *acquis* on *cosmetics* was made with the adoption in February 2001 of secondary legislation based on the cosmetic products act, which aim at fully implementing the directives.

No particular new developments occurred since the last Regular Report in the areas of *pre-packaging, machinery, personal protective equipment (PPE), and textiles and footwear*. No progress was recorded in the areas of toys, pressure vessels, lifts, glass, and wood.

As concerns other sectoral legislation, some adjustments to the import regime of firearms were introduced at the end of May 2001. Concerning the restitution of cultural goods, secondary legislation laying down the definition of national treasure was adopted on the basis of the Cultural Heritage Protection Act.

No particular developments have taken place since the last Regular Report in the **non-harmonised areas**.

In the area of **public procurement**, an important step was taken with the foundation in February 2001 of the Public Procurement Office. The office, whose staff is eventually to be increased to 15 from the present five, will provide advice and training, and will collect and analyse data on the procurement procedures. As part of the practical measures to implement the Public Procurement Act of 2000, the Ministry of Finance published in December 2000 instructions on the format of the public procurement notices in the official journal.

In 2000, the National Review Commission (NRC), an autonomous state body in charge of appeals from bidders, received 242 claims. In around 115 of these cases the decision of the awarding authority was partially or totally cancelled; 43% of the claims were rejected as unfounded, and the remaining claims were declared inadmissible.

Overall assessment

On the whole, legislative alignment in this field is very advanced and the reform of the accreditation, certification and standardisation functions is starting to bear fruit. Attention should now be focused on the timely and complete enactment of the remaining secondary legislation and on the strengthening of the institutional set-up, in particular of the conformity assessment bodies and of market surveillance.

As regards horizontal and procedural measures, Slovenia has horizontal framework legislation in place since 1999, implementing fully the principles of the New and Global Approach. The reorganisation of SMIS has been completed. The next step will be the signature by the SA of

Multilateral Agreements in the field of Accreditation (MLAs). However, the Standardisation Institute should be given adequate resources and conformity assessment bodies still need to be strengthened, including in terms of trained staff, or in some cases created. Market surveillance requires clearer guidance as well as structured co-ordination between the national authorities responsible. In the area of standardisation, Slovenia is approaching the level of 80% adoption of European standards required for membership of European standards organisations. The situation with regard to the notification procedure and to the interchange of data between administrations is satisfactory. As regards safety checks on products at external borders, Slovenia still needs to establish appropriate infrastructure as well as effective administrative co-operation between the customs and other competent authorities.

Progress has been made in strengthening the institutional set-up, but further efforts are needed as regards both market surveillance and the preparedness of conformity assessment bodies, including laboratories. The Trade Inspectorate, which performs most market surveillance tasks together with the Agriculture, Veterinary, Labour, and Health Inspectorates, currently employs 166 persons, including 143 inspectors. While the legal instrument for transferring type-approval from SMIS to the Ministry of Transport has been issued, a type-approval body for agriculture and forestry tractors remains to be identified.

Concerning sector specific legislation, the situation appears satisfactory as regards legislation adopted by the Parliament, since all key framework legislation has been adopted, except for a new act on mineral fertilisers. Some fine-tuning in specific areas still remains to be done. Progress in terms of secondary legislation has allowed a good level of transposition in the areas of legal metrology, pre-packaging, machinery, PPE, electrical equipment - LVD, ATEX, EMC, cosmetics, textiles and footwear, as well as partial transposition of the *acquis* on medical devices, construction products, motor vehicles, foodstuffs, chemicals, and pharmaceuticals. The pace of adoption of the remaining secondary legislation is slower than initially planned in a limited number of sectors, notably as regards toys, lifts, pressure vessels, R&TTE, agricultural and forestry tractors and foodstuffs. For foodstuffs it will be important to terminate the present system, in which both existing and harmonised provisions continue to apply in parallel, well before accession, as it could deter economic operators in this sector from adapting sufficiently early to the conditions of the internal market.

The situation in the non-harmonised sector is on the right track but progress is still slow. Putting into practice Articles 28 to 30 of the Treaty requires continuous efforts, even if it appears that a first inventory of technical legislation to be amended has been made. The legislation adopted over the last two years is either too narrow in scope, such as that relating to restitution of cultural goods, or should be amended, such as the act on firearms which contains excessive procedural requirements in terms of minimum periods. For the elimination of indirect barriers to trade, a first inventory of technical legislation to be amended has been made. Articles 28 and 30 of the EC Treaty also require the examining of other provisions potentially restricting trade such as price regimes, licensing and registration conditions, or commercial communication requirements.

While the legislative framework on public procurement is to a large extent in place, further legislative work is still needed. The legislation adopted in 1999 and 2000 generally meets recognised international benchmarks but contains a number of limited shortcomings, which should be addressed. These include the priority given to domestic standards in the rules on technical specifications, the partial or incomplete transposition of certain concepts, and the

insufficient independence of the review commission and the scope of the review mechanism. Efforts should also be devoted to making the newly established Public Procurement Office operational, and to effectively implementing the legislation at all administrative levels. This will require sustained training efforts for all bodies involved in the public procurement procedures.

Chapter 2: Free movement of persons

Limited progress has been made in this area since the last Regular Report.

In the area of **mutual recognition of professional qualifications**, no major developments have taken place as regards the horizontal framework.

As regards sectoral alignment, a new Veterinary Service Act was adopted in April 2001, which adapts the role of the implementing institution to *acquis* requirements.

In order to comply with the *acquis* concerning the legal profession, a new Act amending the Attorneys Act was adopted in March 2001. It contains provisions for the free movement of lawyers, which will be implemented upon accession.

As regards **citizen's rights**, no new developments can be reported.

With regard to **free movement of workers**, between December and January the Government issued some secondary legislation based on the Employment and Work of Aliens Act. This legislation is intended to facilitate employment procedures for EU nationals before accession and to eliminate obstacles following accession. The preparations for the Employment Service of Slovenia to enter the European Employment Services (EURES) network continued in 2000, mainly through staff training.

On the **co-ordination of the social security systems**, training has been provided for staff as part of a two-year programme. The Act Amending the Social Security Act adopted in March 2001 introduces amendments relating to social security payments to foreigners. Upon accession, workers from other Member States will be eligible for social assistance benefits. Furthermore, proof of compulsory insurance or sufficient own means of subsistence will not be required from EU workers and members of their families.

Overall assessment

The level of alignment varies widely in different areas and further efforts are required especially on mutual recognition of professional qualifications and citizen's rights.

In the area of mutual recognition of professional qualifications, alignment has advanced only in a few areas. The Act on National Vocational Qualifications adopted in August 2000 defines the general system of professional qualifications and training. It defines the roles of the various institutions dealing with professional qualifications. It is important that the amendments to the act, which are essential for alignment, are adopted within the planned timetable. Individual legal acts issued by governmental bodies or authorised organisations of the former Yugoslavia remain in force, provided their validity has not been revoked by individual acts. This applies to all diplomas and certificates acquired in the territory of the former Yugoslavia prior to June 1991 that are valid and need no recognition in Slovenia.

With respect to professional qualifications obtained before harmonisation, Slovenia should introduce measures to ensure that all its professionals can, as of accession, meet the requirements laid down by the directives. It will need to be ensured that, by accession, there are no provisions in Slovenia's legislation which contradict Community rules, notably with respect to nationality, residence or language requirements. In particular provisions relating to knowledge of the Slovene language should be proportionate.

As regards citizens' rights, it is important that the legislation to implement the *acquis* on residence rights and voting rights is adopted according to the planned schedule.

Legislation on the free movement of workers already incorporates most of the principles and provisions of the *acquis* even though a number of these will only become effective upon accession. Before accession, Slovenia will have to adopt new legislation in order to allow EU citizens access to certain civil service jobs, and will have to amend the provisions relating to medical certificates by means of the envisaged Employment Relations Act, which is pending in parliament.

The Ministry of Labour, Family and Social affairs and the Employment Service of Slovenia will need to employ or train officials to co-ordinate tasks related to job brokering within the EURES system.

As regards co-ordination of social security systems, further legislative work is required. Amendments to the Social Assistance Act, to the Act on Employment and Insurance in Case of Unemployment, and to the Housing Act remain to be adopted.

As far as the administrative structure in this area is concerned, the co-ordinating unit responsible for implementation has already been established. However, this structure should be reinforced through continued increase in staff and training activities.

Slovenia continues to implement the bilateral agreements on social security it has signed with all Member States except France, Sweden, the UK, Luxembourg and Spain.

Chapter 3: Freedom to provide services

Significant progress has been made since the last Regular Report in this area.

As regards **freedom of establishment and freedom to provide services** (other than financial services), new legislation removing obstacles to free movement in specific sectors has been adopted. Restrictions to the free establishment and provision of services for distributors of toxic products were brought in line with the *acquis* in January 2001 and May 2001. In the field of cultural services, amendments to the Act on the Film Fund adopted in July 2001 repeal the prior authorisation for foreign film producers. However, a foreign producer will be able to shoot a film in Slovenia only in co-operation with domestic producers. The Obligations Code was also adopted in October 2001.

In the field of **financial services**, amendments to the 1999 Banking Act were adopted in July 2001. Their purpose is to align the act with the new *acquis* adopted in 2000 and introduce some fine-tuning of supervisory rules. The Bank of Slovenia continued its efforts towards alignment in the banking area by issuing an important piece of secondary legislation aimed at

transposing the capital adequacy and netting directives. In terms of supervision, the banking supervision department of the Bank of Slovenia had 44 staff at the end of 2000. The department continued intense on-site inspections of banks in 2000. 29 inspections were conducted, of which eight were full-scope inspections. Co-operation agreements were signed with some EU banking supervisory authorities.

The Insurance Supervisory Agency continued steady progress towards alignment with the *acquis* in insurance by issuing a substantial set of secondary legislation on the basis of the Insurance Act of 2000, including a number of supervision and prudential provisions. The Agency for Insurance Supervision, a legally independent institution, reached financial independence in February 2001. It is now fully financed through proportional fees collected from the insurance sector. Its staff was substantially reinforced in November 2000, bringing it up to 17 officers, and is currently undergoing training with foreign assistance. The agency signed a co-operation agreement with the Bank of Slovenia in November 2000 and another with the Securities Market Agency in February 2001.

In the area of investment services and securities markets, a Decision of the Bank of Slovenia of June 2001 establishes an investor compensation scheme, which will become operational in January 2003. The staff of the Securities Market Agency, which has remained at the same level since the last Regular Report, received further training.

Concerning the **protection of personal data and the free movement of such data**, Amendments to the Act on Personal Data Protection were adopted in June 2001. These amendments entrust an independent personal data Ombudsman with the responsibility for supervision in this area, and foresee an inspectorate for personal data. These replace the earlier authority for data protection, which reported to the Ministry of Justice.

No particular development occurred in the area of **information society regulations**.

Overall assessment

Alignment in this area is already advanced, although further efforts are still needed to complete it.

A large part of the legislative work has been completed as regards the freedom to provide services. In addition to completing the legal framework, Slovenia should now focus on the practical implementation of the *acquis*, in particular through the strengthening of the supervisory institutions, and on the structural economic measures necessary to achieve smooth opening of financial services markets.

Alignment with the *acquis* is well under way as regards direct discrimination against freedom of establishment and freedom to provide services. The new obligation code is intended to comply with the *acquis* related to self-employed commercial agents. Further amendments to Parliamentary legislation are also needed to remove obstacles to free establishment and free provision of services in a few sectors including agriculture and forestry, cultural activities and film production, and real estate agents. In addition to the complete removal of direct discrimination, further attention should now be focused on indirect discrimination.

As regards banking, Slovenian legislation is already aligned to a high degree, also concerning the free establishment of foreign banks. The provisions requiring adjustments concern prudential requirements on capital adequacy, as well as the home country control principle, which there are plans to incorporate into secondary legislation at accession. The cross-border dimension of deposit insurance (coverage of branches abroad) should be taken into account in this context. Slovenia should now enhance its efforts to ensure effective implementation and supervision of the legislation, as well as to expand co-operation with other European supervisory authorities.

In the area of insurance, Slovenia still needs to pass new legislation in order to align with the *acquis* as regards compulsory insurance for motor vehicles. Otherwise Slovenian legislation is largely aligned with the *acquis*, even if some provisions will only be applied gradually. Some further adjustments to secondary legislation will be required on accession in order to implement the home country control principle. Continued efforts are needed to reinforce the supervisory body in order to ensure sufficient intensity of controls.

In the area of investment services and securities markets, an important step remains to be taken through adoption of legislation on investment funds and management companies, following in particular the UCITS (Undertakings for Collective Investment in Transferable Securities) Directive. A few parts of secondary legislation remain to be enacted on the basis of the Securities Markets Act. All in all, however, the level of legislative alignment is quite advanced. Attention will have to be paid to the effective fulfilment by the securities markets agency of its new supervisory tasks, and to more systematic co-ordination with the other supervisory bodies.

In conclusion, a substantial level of approximation with the *acquis* has been achieved in financial services, and a clear timetable for market opening has been set. However, there are still concerns as regards the preparedness of the sector for increased competition, since the market structure is still characterised by a combination of persistent dominant positions and a number of scattered small undertakings, and the ownership structure has only evolved to a limited extent. This is especially the case in the insurance sector, where a new act on ownership transformation of insurance companies should be prepared and adopted following the decision of the Constitutional Court in May 2001 to annul the Act adopted in January 2000.

The legislative framework for the protection of personal data and the free movement of such data is almost entirely in line with the directive. However, further fine-tuning is needed, notably as regards the movement of data.

Slovenian legislation is almost entirely in line with the information society regulations contained in the *acquis*.

Chapter 4: Free movement of capital

Overall, Slovenia has continued to make good progress in this area.

Significant progress has been made during the reporting period in the area of **capital movements and payments**. The Bank of Slovenia lifted some restrictions in the area of money transactions pursuant to the Foreign Exchange Act at the end of year 2000. Foreign nationals are now allowed to withdraw any amount of cash, the premium for the right to buy foreign exchange from the Bank of Slovenia was lowered from 0.4 to 0.2% and the period, during

which foreign buyers of securities are not allowed to sell them free of charge was shortened from one year to six months. In addition, some restrictions concerning securities operations between residents and non-residents were abolished, inter alia the obligatory custody accounts for the purchase of securities as portfolio investment by non-residents. New framework legislation adopted since the last Regular Report lifted the restrictions on foreign direct investment in the telecommunications, media, auditing and transport sectors. In the latter, the new aviation act foresees the removal of restrictions by accession. Regarding payments, Slovenia started in September 2000 the implementation of the programme for reform of payments by transferring the accounts of legal entities from the central payment agency to private banks.

No particular developments can be reported in the field of **cross border credit transfers**.

Overall assessment

On the whole, the preparations in this area are very advanced. The Foreign Exchange Act, adopted in March 1999, brought the scope and concept of capital movements in line with the *acquis*. Slovenia has continued to abolish the remaining restrictions gradually in accordance with the liberalisation timetables. It is important that Slovenia maintains the timetables set and abolishes all the remaining restrictions, in particular concerning short-term transactions, foreign direct investments in investment funds and management companies.

Slovenia introduced a real time gross settlement (RTGS) system in 1998. A Giro clearing system for retail payments was introduced in 1999 and a decision was adopted on the conditions and methods for carrying out international transactions. The legislative developments and the ongoing reform of the payment system confirm the good overall progress of Slovenia in this area.

Slovenia has made good progress in the field of cross border credit transfers and it has already partially transposed the relevant *acquis* by adopting a decision on the conditions and the methods for carrying out international transactions. However, alignment remains to be completed and an adequate and effective complaints and redress procedure for settlements in this area still needs to be implemented.

Slovenia's legislation concerning **money laundering** is in line with the *acquis*. Compliance with the recommendations of the Financial Action Task Force should be ensured.

Further liberalisation of capital movements does not require additional administrative capacity, due to the abolition of control mechanisms. However, well-trained staff and an efficient reporting system on cross-border transactions within the Bank of Slovenia are necessary to monitor capital flows effectively.

Chapter 5: Company law

Slovenia has made significant progress in this area since the last Regular Report.

Regarding **company law** as such, the Act amending the Act on Commercial Companies was adopted in May 2001. Provisions on mergers and capital increases have been incorporated and provisions for publication of business reports are now provided for. The act also reduced the

scope of the provisions concerning the compulsory use of the Slovene language inside companies.

The last implementing regulation to be adopted on the basis of the Accountancy Act, the Instructions on the method and time periods for adjusting assets and liabilities and on equity investments, was adopted in January 2001. The Auditing Act was adopted in January 2001. The law, which aligns with the relevant directive, also abolishes restrictions on the establishment of foreign audit firms.

As regards the **protection of intellectual and industrial property rights**, the Act Amending the Copyright and Related Rights Act was adopted in January 2001. This law aligns with the directives on protection of copyright and related rights, on the legal protection of services based on conditional access, and on the legal protection of databases. The Act further introduces more efficient protection of authors' rights and measures against violations of these rights. The Amendments to the Industrial Property Act were adopted in May 2001. This act aligns the legislation with the EU directives relating to trademarks and to the legal protection of designs.

The Act on Customs Measures Relating to Infringement of Intellectual and Industrial Property Rights was adopted in April 2001. It regulates the measures to be taken when goods that may infringe intellectual property rights are found during a control operation. It aligns Slovenian legislation with the border enforcement *acquis* and should facilitate the transition to the direct application of the EC Regulation upon accession.

Regarding administrative capacity, the Slovenian Intellectual Property Office (SIPO) concluded a Memorandum of understanding with the Office for Harmonisation in the Internal Market (OHMI) as regards trademarks and designs. A new Institute of Information Society on Copyrights and Related Rights was established. Six examiners from the Intellectual Property Office (SIPO) have undergone a training programme on the CTM registration procedure. Two training seminars were organised on the extension of European patents to Slovenia and the SIPO recruited three experts in this field. Customs officers also received training on EC legislation in 2000.

Regarding the **Regulation replacing the Brussels convention** on jurisdiction and enforcement of judgements in civil and commercial matters and **the Rome convention** on the law applicable to contractual obligations, no particular developments occurred.

Overall assessment

The degree of alignment achieved in this sector can be regarded as generally satisfactory.

The Slovenian legislation on company law has been largely aligned with the *acquis* with the adoption of the Act Amending the Companies Act. However, the practical implementation of the provisions on the use of language will have to be examined in the light of the principle of proportionality. No further legislative amendments are required, except for the detailed accounting standards in the field of auditing and accounting to be laid down by the Slovenia Auditing Institute after approval of the Ministry of Finance. The administrative structures are in line with the *acquis*. Since the new companies act will be implemented by business entities, no strengthening of the administrative system is required.

Regarding intellectual property, the amendments adopted in January 2001 provide for a considerable degree of alignment, except for certain aspects of authors' rights and their collective management. The legislation on industrial property is also almost fully in line with the *acquis*, except for the protection of biotechnological inventions on which implementing regulations will be needed. The legislation concerning border enforcement appears satisfactory. Slovenia has ratified the two 1996 World Intellectual Property Organisation (WIPO) Treaties.

As far as administrative capacity is concerned, all necessary institutions are now in place. The Slovenian Intellectual Property Office is qualified to implement the legislation. The Office currently employs fifty persons. Attention should be paid to ensuring efficient judicial enforcement in cases of violation of intellectual and industrial property rights. Upon accession to the EU, the Ljubljana Regional Court will acquire the status of the Community trademark court of first instance. Judges should be further trained in this field, and customs officers and policemen should be trained in prevention of trade in counterfeit trademarks and pirated goods. The improvement of co-operation among the law enforcement bodies should also be maintained.

Chapter 6: Competition policy

Since last year's Regular Report, Slovenia has continued to make progress in this area, in particular in the field of state aid.

In the field of **anti-trust**, the implementation of the Act on Prevention of Restriction of Competition and related legislation has continued. The Competition Protection Office, which is the national competition authority in Slovenia, has a staff of 11. In 2000, the Office initiated 43 procedures, of which four concerned restrictive agreements, three were procedures initiated for abuse of dominant positions, and 36 concerned mergers. The Office adopted 51 final decisions. Of these, nine concerned restrictive agreements, three abuse of dominant positions and 39 merger cases. However, no fines or court judgements have been issued in 2000.

In the field of **State aid**, Slovenia continued implementing the State aid control act. The new Government standing orders, adopted early this year, require the opinion of the state aid control body whenever a measure involving State aid is submitted to the Government. As regards existing aid schemes, the Government continued implementing a programme on harmonising the existing state aid with EC standards. With regard to transparency, the quality of the State aid report and the inventory are good. Full coverage, however, requires the inclusion of all relevant legislation on taxation, as well as the activities of the state-controlled holdings.

The Government approved a regional aid map, which provides for some differentiation of aid intensities between Central Slovenia and the other NUTS III regions, in June 2001.

The Government took a decision in April 2001 to modify the composition of the national state aid monitoring authority, the Commission for the State Aid Control. The Commission relies on the administrative and technical support of the State Aid Control section, which was transferred at the end of 2000 from the Ministry of Economic Relations and Development to the Ministry of Finance. It now employs twelve people who have benefited from training, along with the staff of other ministries involved in State aid. Programmes of adjustment for the leather, footwear, textile and apparel industries are being implemented for the period 2000-2003. The restructuring programme for the steel industry has been approved by the European

Commission. Overall, from its creation in February 2000 until 30 June 2001, the Commission received 152 notifications or amendments thereto. The State Aid Control Commission declared 41 of these to be compatible and 51 conditionally compatible. In 39 cases it informed the notifying body that the measure did not constitute state aid. In one case (the Slovenian regional aid map), the Commission issued a positive assessment. Four notified cases were pending at the end of June 2001.

Overall assessment

Preparations in Slovenia are advanced in this area.

As regards anti-trust, Slovenia's legislation covers most of the *acquis* provisions and the existing legislation is in line with the EC rules. The Competition Protection Office has broad powers to enforce competition rules and its staffing is being reinforced. The most important challenge for the office is now to ensure that the application and enforcement of the anti-trust rules is effective and that priority is given to cases that concern the most serious distortions of competition. This implies that attention should now be paid to developing an effective fining policy as well as to the enforcement of the rules by Courts.

As regards state aid, an important step has been taken with the adoption of the framework legislation. Following the introduction of secondary legislation, the existing provisions are now largely in line with the *acquis*. Efforts have also been made in the fields of industry adjustment and restructuring programmes and schemes. Particular attention should now be paid to the alignment of existing aid measures and old legislation on the basis of which aid continues to be granted. This will notably imply repealing the export-based criterion for tax reduction contained in the Act on Economic Zones, and placing the activities of the Government-owned holding, the Slovenian Development Corporation (SDC), under the scrutiny of the State aid control commission. The State aid Commission has already scrutinised a large number of aid proposals submitted to it by the aid granting bodies. The main priority is now to ensure that the enforcement of the state aid rules is systematic and that existing aid schemes and legislation under which authorities at various levels grant aid are aligned swiftly.

In order to ensure a differentiation of maximum aid intensities in assisted areas, Slovenia is in the process of agreeing a regional aid map with the Commission.

Chapter 7: Agriculture

Agriculture in Slovenia accounted for 3.2% of gross value added (GVA) in 2000, as opposed to 3.6% in 1999¹⁹. Employment in agriculture has decreased and accounts for 9.9% of total employment (compared to 10.2% in 1999)²⁰.

Data of the Statistical Office of the Republic of Slovenia on agricultural output in 2000 show that the production of crops from industrial and fodder plants fell by a quarter compared to the previous year, as a result of a drought during the growing period and smaller areas planted. The drought also had a negative effect on the volume of hay gathered on permanent grasslands,

¹⁹ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

²⁰ Eurostat Labour Force Survey definitions. Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture.

while the production of wheat grew by 6% due to the introduction of direct payments and larger areas sown. Fruit crops were abundant in both orchard plantations and extensive orchards. The yield of grapes was also bigger compared to harvests last year. Livestock production, whose share of total agricultural production is increasing, was characterised by problems in cattle breeding and lower consumption of beef. Pig breeding has remained profitable this year.

In 2000, EC imports²¹ of agricultural products originating in Slovenia increased by 4% to €93.3 million. EC exports to Slovenia increased by 3% to €431.1 million. The trade balance in favour of the Community amounted to €337.8 million compared to €325 million in 1999. The most important product group in terms of EC imports from Slovenia is meat and edible meat offal. As far as EC exports to Slovenia are concerned, the most important sectors are tobacco, various food preparations and fruits.

In April 2001 the Commission and the Republic of Slovenia reached an overall agreement on wine and spirits comprising a new preferential trade regime for wine and the reciprocal protection and control of wine names and spirit designations. The agreement will take the form of an additional protocol to the Europe Agreement and is due to enter into force on 1 January 2002 (*see section A.b. – Relations between the European Union and Slovenia*).

The budget for agriculture was increased by 10% in 2001 to €13 million, following last year's increase of 37%. €102 million has been allocated to implement the newly issued market orders which aim at bringing agricultural markets up to EC standards and stipulate the amount of direct payments per hectare or animal. €8.8 million out of the total budget for agriculture has been allocated to the promotion of environmentally friendly production.

According to the Government, a decision on returning property to previous owners has been made concerning in total approx. 51% of agricultural land and 67% of forests.

Horizontal issues

Good progress has in general been made in this field since last year's Regular Report.

As regards the implementation of measures related to the *European Agricultural Guidance and Guarantee Fund (EAGGF)*, The capacity of the Agency for Agricultural Markets and Rural Development (AAMRD) has been strengthened further. The Agency, already established within the Ministry of Agriculture, Forestry and Food (MAFF) in 1999, is responsible for the implementation of the SAPARD pre-accession fund (*see section A.b. – Relations between the European Union and Slovenia*), national support schemes as well as for the tasks related to the Common Agricultural Policy and the Paying Agency for the management of EAGGF funds after accession. Recruitment and training of staff is ongoing. 84 of the envisaged total staff of 143 were employed by 15 June 2001.

Concerning the *Integrated Administration and Control System (IACS)*, a Decree on the implementation of agricultural policy measures for 2001 was adopted in April 2001. The decree establishes the procedures for the introduction of direct payments, administrative and on-the-

²¹ Uruguay Round definition of agricultural products, figures taken from EUROSTAT COMEXT (see U.E. 12/15: Commerce des Produits Agricoles 1988-2000, 1 Partie D.G. AGRI/A.2 Analyses quantitatives, prévisions, statistiques, études, 2001, p. 10-57 et 86-89)

spot checks. The AAMRD is the body responsible for the operational implementation and the setting-up of IACS.

Slovenia has continued to update the databases required for the implementation of IACS, such as the register of agricultural holdings, the cadastre of actual agricultural land use, the central animal register and the record of less-favoured areas. On-line links with the register of spatial units, the central numerical data base of the land cadastre and the business register have been set up. Digitalisation of the land cadastre is currently under way and is due to be ready by the end of 2002. The information infrastructure for the establishment of databases referring to livestock as well as an official eartag system and the unified central register for bovine animals were established at the end of 2000. Actual land use monitoring data are gathered from digital orthophoto maps on a scale of 1:5000. In the field of *trade mechanisms*, the competence to implement the tariff quota system for agricultural and foodstuffs products was attributed to the AAMRD and the tariff quota system was further aligned with the *acquis* as of 1 January 2001. The distribution of quotas is now carried out in two ways (“first come – first serve” principle as well as a licensing system comparable to the EC system). The Customs Administration of the Republic of Slovenia monitors the carrying-out of imports within tariff quotas and notifies the AAMRD of the situation daily.

In relation to *quality policy*, a decree laying down the conditions for the use of the designation of geographical indications as well as several implementing decrees concerning the quality of agricultural products and foodstuffs have been adopted since the last Regular Report. The Office of the Republic of Slovenia for the Recognition of Denominations of Agricultural Products and Foodstuffs was established in December 2000 and its capacity is currently being upgraded. The Inspectorate for Quality Control of Agricultural Products and Foodstuffs, which has already been established but is not yet operational, will be authorised to carry out checks on quality of production, processing and trade in agricultural products and foodstuffs.

In the area of *organic farming*, rules on organic production and processing of agricultural products and foodstuffs, laying down the production methods and procedures, control, denomination and conditions for the use of the indication “organic” were adopted in March 2001. Criteria for the designation of “organic product” are defined in the Agriculture Act of 2000. Organic farming aid, provided since 1998, is also continuing in 2001.

Concerning the preparations for Slovenia’s participation in the *Farm Accountancy Data Network (FADN)*, Slovenia plans to collect and analyse FADN data at future NUTS 1 (national) level.

Common Market Organisations

Since last year’s Regular Report, Slovenia has made good progress as regards the introduction of a legal framework and administrative structures for the establishment of Common Market Organisations.

Decrees on the organisation of markets in milk and milk products, beef, goatmeat and sheepmeat, cereals, fresh fruit and vegetables, olive oil, sugar, wine grapes, must and wine, hops and seeds of agricultural plant species have been adopted since the last Regular Report. The newly issued market orders stipulate the amount of direct payments per hectare or animal. In case of beef, sugar and wheat, intervention conditions for intervention buying-in are defined.

Furthermore, regulations setting-up the market information systems for milk, beef, pig meat, sheep meat and goat meat as well as several technical regulations concerning the quality of agricultural products and foodstuffs have been adopted since the last Regular Report. Direct payments, already introduced in 2000, are being increased in 2001.

The legal basis for setting up producers' organisations has also been provided for, with the adoption of the above-mentioned decrees on the different market organisations, as well as with the adoption of the Agriculture Act.

Rural development and forestry

Some progress has been made as regards *rural development* since the last Regular Report. In April 2001, Slovenia adopted a Decree on the Slovenian agri-environmental programme and the introduction of direct payments for 2001 measures as well as the Decree on the introduction of compensatory payments for less-favoured areas. Further implementing decrees as regards the type, scope and conditions for carrying out supplementary activities on farms as well as on the actual programmes to be implemented in 2001 were adopted in June/July of 2001, in order to identify the eligible measures and projects. No particular developments have taken place in the field of *forestry* since the last Regular Report.

Veterinary and phytosanitary issues, including food safety

Since last year's Regular Report Slovenia has made very good progress in the **veterinary sector**.

The new Veterinary Practice Act, adopted in April of 2001, lays down the organisation and competencies of the veterinary services as well as the basic measures in the veterinary field and regulates the area of financing of veterinary expenditure. It provides the legal basis for the adoption of implementing regulations aiming at transposing the veterinary *acquis*, which was not feasible in some areas under the previous Veterinary Practice Act.

In the field of *veterinary control*, a unified ear tag system for bovine animals and a Central Register of Bovine Animals was established as of 1 January 2001. The Service for the identification and registration of animals within the Ministry of Agriculture, Forestry and Food is responsible for the management of the central register. Slovenia has already joined the ANIMO system on a voluntary basis. The new Veterinary Practice Act and the Order on fees in the veterinary sector of May 2001 set out the provisions relevant to the financing of veterinary inspections and fees.

With regard to *control of animal diseases and animal health*, Slovenia discontinued vaccination against Classical Swine Fever as of 1 November 2000. Furthermore, two contingency plans in case of an outbreak of compulsorily notifiable diseases, i.e. foot-and-mouth disease and classical swine fever have been adopted since the last Regular Report.

Rules on the conditions and the method of transportation of animals on the basis of the Protection of Animals Act were adopted in the field of *animal welfare* in September 2000.

Several implementing regulations have been adopted in the field of *common measures and public health*, and *animal waste treatment* since the last Regular Report. As regards *animal nutrition*, the Feedingstuff Act was adopted in March 2001 and amended Rules on suitability

of animal feed came into force in April 2001 transposing the *acquis* concerning medicated feedingstuffs. No particular progress can be reported concerning *zootechnics*.

The Veterinary Administration of the Republic of Slovenia (VARs) has issued several regulations relating to alignment with the recently adopted *acquis* on Transmissible Spongiform Encephalopathies (TSE). Rapid prion tests for all animals over 30 months were introduced in February 2001. In its assessment of the Geographical BSE risk of May 2001, the EU Scientific Steering Committee placed Slovenia in group II.

The Veterinary Administration of the Republic of Slovenia (VARs) is undergoing a reorganisation due to the adoption of the new Veterinary Practice Act. The Animal Health Centres are due to be abolished by December 2001 and their remaining staff (around 40) will be reallocated to the National Veterinary Institute or to the VARs. The Veterinary Practice Act provides for the establishment of the National Veterinary Institute, which will be the national reference laboratory for veterinary issues and will be located at the premises of the former Central Veterinary Institute.

In the **phytosanitary sector**, good progress has been made since last year's Regular Report.

As regards *plant health (harmful organisms and pesticides)* two framework laws, the Plant Protection Products Act and the Plant Health Act, have been adopted. The Plant Protection Products Act, adopted in January 2001, regulates all the procedures concerning the registration, placing on the market and use of plant protection products (pesticides). The Plant Health Act, which was adopted in May 2001, provides the regulatory framework for plant health (harmful organisms). It also provides the legal basis for the establishment of the Plant Protection and Seeds Administration. Furthermore, several implementing regulations concerning control measures against certain harmful organisms, authorisations granted to public institutes, conformity certificates for plant protection products as well as a list of plant protection products registered in the Republic of Slovenia have been adopted since the last Regular Report.

Rules on the certification of the health status and quality of seed potatoes were adopted in the field of *quality of seeds and plants* in November 2000.

No particular developments have been registered as regards *forest reproductive material, plant variety rights and plant hygiene*.

With regard to **border inspection posts (BIPs)** carrying out the veterinary and phytosanitary checks at Slovenia's future external borders, progress has been made in the establishment of one of the three main border crossings at the border with Croatia. The land for the border crossing at Obrezje has already been located and the plans for the phytosanitary and veterinary inspection facilities have already been drawn up.

As regards **food safety** (*see also chapter 1 - Free movement of goods*), Slovenia submitted its Food Safety Strategy to the Commission in April 2001. The Strategy outlines the legislation already in place or still to be adopted which will ensure the transposition of the *acquis* in this area, the co-ordination of the various official bodies involved, and their competencies, organisation and staffing.

Overall assessment

Overall, the preparations for accession are well advanced in this area although further work still remains to be done.

Slovenia has continued the preparations for the setting-up of the basic mechanisms for the management, implementation and enforcement of the Common Agricultural Policy (CAP). The legal basis allowing for the transposition of the *acquis* in this area, the Agriculture Act, was adopted in 2000. The relevant institutions have already been set up. However, the effective implementation of all measures related to the CAP in Slovenia will require substantial new staff at the Ministry of Agriculture, Forestry and Food and at regional level. Slovenia should therefore further increase its administrative capacity, in particular at the level of the agricultural inspection services.

Slovenia's farm structure is dominated by small private farms that cultivate over 90% of agricultural land and account for about 75% of agricultural output. This unfavourable farm structure is reflected in the average holding size of 4.8 ha, lower production and a small share of full-time farmers. Although the apparent economic importance of agriculture is low and declining in macro-economic terms, it plays an important role in maintaining a social and territorial equilibrium. Some progress has been made with the denationalisation of agricultural land and forests. However, this process still needs to be speeded up. Delays in this area constitute a strain on the development of the agricultural sector in Slovenia as well as on the suitable identification of land for CAP purposes.

As regards **horizontal issues**, the implementation of the *acquis* concerning the European Agricultural Guidance and Guarantee Fund (EAGGF) is well under way. The preparation of the Integrated Administration and Control System (IACS) is also continuing in a satisfactory way. Slovenia plans to continue investments up to 2003 concerning transition to a GIS (geographical information system) based IACS. Slovenia should further continue its efforts to establish other main CAP mechanisms, such as the register for agricultural holdings and the land cadastre of agricultural land use. Slovenia has already been using the Farm Accountancy Data Network (FADN) on a voluntary basis since 1994.

Slovenia has introduced a substantial number of decrees for the implementation of the **Common Market Organisations**. In particular, substantial progress can be noted regarding the establishment of market information systems for several agricultural sectors. The legal framework has been created. This is a step in the process of alignment with the agricultural *acquis*, which will be directly applicable upon accession.

In the area of **Rural Development and Forestry**, while Slovenia introduced a system of direct payments for the environment and landscape protection measures and compensatory payments for less-favoured areas already in 1999, some further work is still required in this area. According to the Slovenian Agri-Environmental Programme, adopted in April 2001, support for environmental direct payments is due to increase substantially in the next two years. As regards forestry, the adoption of legislation amending the Forest Act and the Agricultural and Forest Funds Act is running behind schedule. Alignment with the *acquis* in this field should not be further delayed, since Slovenia is highly forested.

Concerning the **veterinary field**, the adoption of the New Veterinary Practice Act was an important step forward.

In the area of *veterinary control*, the registration and identification of bovine animals is being put in place. The systems for porcine and caprine animals still need to be set up. In the field of *control of animal diseases and animal health*, preparations for participation in the animal disease notification system (ADNS) have been completed.

Regarding *animal welfare*, Slovenia still needs to make some progress to align its legislation with the *acquis*, in particular as regards the protection of animals kept for farming purposes. The legal basis, the Law on Animal Protection, was already adopted in 1999.

Good progress has been made in the field of *animal waste treatment* with the adoption of several decrees, mainly in relation with TSE. There is already one operational animal-waste processing establishment in Slovenia which meets the technical requirements for high-risk waste prescribed by the relevant Council Directive on animal waste.

With regard to *common measures*, the legal basis, the law on Medicinal Products and Medical Devices Act, has already been adopted. The *acquis* on *public health* has already been transposed widely.

Further efforts should be made as regards *animal nutrition*. The Medicinal Products and Medical Devices Act provides the legal basis for a regulation defining the substances the use of which is prohibited for the purpose of breeding. It also sets out the conditions under which these substances may be used for therapeutic and certain zootechnical purposes and controls the trade in and use of these substances. As regards *zootechnics*, Slovenia still needs to regulate the system of herd books (registering animals, identification of pure bred breeding animals etc.).

The capacity of the VARS is improving steadily. In particular, during the BSE crisis the VARS proved its ability to react in crisis situations as it was able to implement appropriate measures rapidly. Nevertheless, its administrative capacity still needs to be strengthened. The VARS is undergoing a reorganisation following the approval of the new Veterinary Practice Act. The VARS and the National Veterinary Institute will be reinforced by staff from the Animal Health Centres due to be abolished by December 2001. The Veterinary Practice Act also provides for the establishment of the National Veterinary Institute and will serve as the national reference laboratory independent of the Veterinary Faculty.

Good progress has been achieved in the **phytosanitary sector**. The framework legislation allowing for further alignment with the *acquis* in the field of *plant health (harmful organisms and pesticides)*, *plant hygiene* and *plant variety rights* is already in place. The legal basis as regards *quality of seeds and plants* and *forest reproductive material* still needs to be harmonised with the *acquis*.

The phytosanitary service currently consists of the administration part within the MAFF, the inspection part within the Inspectorate for Agriculture, Forestry, Hunting and Fisheries (IAFHF) and the expert part within the authorised institutes and/or public institutions. The legal basis for the Plant Protection and Seed Administration (PPSA), a body within the MAFF which will be the central authority responsible for phytosanitary issues and reporting to the European Commission, was created by adoption of the Plant Health Act. The setting-up of this

administration will entail a re-organisation of the phytosanitary service. Training of administrative staff and inspectors is currently ongoing.

However, although major steps have been taken as regards the transposition of the *acquis* its effective implementation still requires some efforts, in particular as regards administrative capacity.

Slovenia plans to have three road **border inspection posts (BIPs)** on the border with Croatia (Obrezje, Jelsane and Gruskovje), one BIP at Ljubljana Brnik airport and one in the port of Koper for veterinary and phytosanitary checks at its future external border. Preparations for alignment with the *acquis* in this area are quite costly and time-consuming and should be given high priority. Procedures for import control in the veterinary and phytosanitary field are currently being developed with Community assistance.

As regards **Food safety** Slovenia is progressing satisfactorily in aligning its food safety standards.

Chapter 8: Fisheries

Since the last Regular Report, some further progress has been made in this domain.

As regards **resource management, inspection and control**, a Department for Freshwater, Marine Fishery and Fish Farming has been established in the Ministry of Agriculture, Forestry and Food, and its staff has been slightly reinforced. The fisheries institute was transformed into a Fisheries Research Institute of Slovenia in April 2001, and will become a focal point for scientific advice on sea resources. The Maritime Code, which was adopted in March 2001, establishes the legal basis for the monitoring of fishing vessels by the inter-ministerial CROSS centre. Monitoring and reporting on fish resources and fishing activities is being improved in the framework of an international project covering Adriatic fisheries.

In the field of **structural actions**, Slovenia's Rural Development Plan for 2000-2006 was approved by the Commission in October 2000. It contains a section on fisheries, which will serve as a basis for the implementation of the structural policy in the sector. As regards fleet registration, an important step towards the introduction of the fishing vessel register has been achieved with the adoption of the Maritime Code.

No particular developments are to be reported in the areas of **market policy, state aid to the fisheries sector, and international fisheries agreements**.

Overall assessment

Slovenia's fisheries policy is partly aligned to the *acquis* in this area, but further work is needed to complete alignment.

Slovenia's legislation and administrative structure are nearly able to meet the requirements of the Common Fisheries Policy. However, the framework legislation on sea fisheries and secondary legislation in the areas of market policy and resources management remain to be adopted.

Further efforts are also needed as regards the administrative capacity, notably the designation of staff for implementing the market policy and the reinforcement of the sea fisheries control and

inspection. Inspection is currently carried out by one specialised sea inspector. Efforts should be continued to turn the Fishing Fleet Register managed by the Ministry of Transport into an operational tool of the fisheries policy. The inter-ministerial CROSS centre in charge of monitoring vessels should now be made operational.

It should be noted that Slovenia has a fisheries agreement with Croatia, but that the possibilities provided by that agreement are not being used, even though it is automatically extended each year. Slovenia also participates in fisheries co-operation within the UN Food and Agricultural Organisation, and is a member of the General Fisheries Commission for the Mediterranean.

Chapter 9: Transport policy

Since the last Regular Report, Slovenia has continued to align its legislation with the *acquis* and achieved significant progress, in particular in the fields of road transport, air transport and maritime transport with the adoption of new framework legislation.

As regards **Trans-European Transport Networks**, Slovenia has continued the construction of its motorway network in Trans-European Corridors V and X in accordance with the National Motorway Construction Programme. The Programme, the estimated investment value of which totals €280 million for the year 2001, is approximately half-complete. The Government adopted a highway construction and maintenance programme for this year in June 2001. The modernisation of the existing railway infrastructure has progressed in accordance with the National Programme of the Slovenian Railway Infrastructure Development. The rehabilitation of the existing railway lines is under way, and a new direct railway link with the Republic of Hungary was opened along Corridor V in May 2001. Slovenia has also agreed with Italy on the alignment of the future high-speed rail link between the port of Venice and Ljubljana. Slovenia has also created a programme for port infrastructure development in the Port of Koper which is linked to the Trans-European Network.

In the **land transport** sector, significant progress was achieved in the field of *road transport* with the adoption of the new Road Transport Act in July 2001. The law aligns different aspects of road transport with the *acquis*, such as access to national and international passengers and goods transport market. Two important pieces of legislation were adopted pursuant to the Transport of Dangerous Goods Act, namely the Rules on safety, in September 2000, and the Rules on the professional qualifications certificates of safety advisers in February 2001. Slovenia signed the European Agreement on International Occasional Carriage of Passengers by Bus (INTERBUS) in December 2000.

A new Road Transport Inspectorate, which will issue EC licences for road transport operators and enforce legislation, was established in March 2001. It is at present staffed with 30 people, and the Government has approved the recruitment of 20 new staff in the next two years.

On *railways*, secondary legislation has been adopted to achieve further alignment with the *acquis*, notably in the fields of public service obligations, the operation and maintenance of safety systems and infrastructure investment. The Railway Transport Safety Act was adopted in November 2000 regulating the railway infrastructure, railway rolling stock, rules on the operation of control and safety systems.

The Directorate for Rail Transport responsible for licensing railway undertakings, certifying railway safety, setting infrastructure charges and allocating infrastructure capacity started to recruit its new staff. It currently has 21 employees and an additional 12 are foreseen to be recruited.

As concerns **air transport**, Slovenia adopted the Aviation Act in February, and it entered into force in April 2001. It sets the conditions and requirements concerning, among others, aircraft, flight personnel and other technical staff, air transport operations and other aviation activities, airports, infrastructure of air traffic navigation services, air traffic safety, investigation of civil aviation accidents and incidents, operation of airport services and navigation services in air transport, public infrastructure and supervision and sanctions in case of aviation offences. Slovenia became a full member of the Joint Aviation Authority (JAA) in April 2001.

A new investigating body is currently being set up in order to carry out tasks related to the investigation and prevention of civil aviation accidents and incidents pursuant to the Aviation Act. In order to implement the harmonised legislation, Slovenia has reinforced staffing at the Civil Aviation Administration and additional training of staff has been carried out.

As regards **maritime transport**, Slovenia has made substantial progress, notably in terms of safety, by adopting the Maritime Code in March 2001. Slovenia also adopted the relevant International Maritime Organisation (IMO) Conventions in the area of "Oil Pollution" in the reporting period.

Slovenia was admitted to the White list of the STCW Convention (International Convention on Standards of Training, Certification and Watchkeeping for Seafarers) which regulates certification of seafarers in June 2001.

The maritime transport administration has been strengthened by the setting-up of the CROSS Centre, responsible for the management of Vessel Traffic System and navigational safety control.

Overall assessment

Slovenia's legislation in the transport sector is already to a great extent in line with the EC *acquis*. Three framework laws are now in place: the new Road Transport Act, the Maritime Code and the Aviation Act, although there are still a number of technical details and secondary legislation which remain to be implemented.

A transit country, Slovenia continues to participate actively in the development of Pan-European transport corridors V and X and is engaged in a major investment and upgrading programme of its road and railway networks. However, there are concerns regarding the timetable for motorway construction work since progress has been limited in 2001. As regards the recently adopted highway construction and maintenance programme, contributions from petrol tax, motorway tolls and loans are now expected to amount to less than half of the forecast. This could severely limit the planned construction work.

While significant progress has been made on road transport with the adoption of the Road Transport Act, the Road Transport Safety Act and the Public Roads Act will still have to be amended. The railways sector is close to alignment with the *acquis* but further efforts will be

required to align with the new railways *acquis*. This will imply further restructuring of the state-owned railway company as well as market opening for freight transport.

The field of air transport has been largely aligned with the *acquis* with the adoption of the Aviation Act, although implementing legislation is still needed. Slovenia has confirmed its commitment to accelerate harmonisation before accession through the European Common Aviation Area (ECAA) agreement, and is in the process of introducing the constitutional reforms that will facilitate ratification.

The field of maritime transport is to a great extent aligned with the *acquis*, now that the Maritime Code has been adopted. Implementing legislation is still required in the following fields: port State control, maritime navigation in territorial sea and internal waters, entry of ships and floating objects in the ship's register, and port concessions. As for maritime safety, Slovenia has a good track record with its fleet and continues to carry out port State control inspections in accordance with the Paris Memorandum. Slovenia has also implemented all the relevant EC legislation concerning navigational safety, ship classification, ship's registers, port State control as regards the enforcement of the Amendments to the International Convention for the Safety of Life at Sea, ships' crews and ports. Up until now, Slovenia has ratified 26 IMO Conventions, protocols, amendments and annexes.

The necessary administrative structures are largely in place in the area of road transport. Pursuant to the new Road Transport Act, the tasks concerning the management of the regular passenger transport system will be performed by the Roads Directorate.

All the institutions necessary for implementing the relevant *acquis* are in place in the field of railways. The Ministry of Transport carries out tasks related to the preparation and implementation of the harmonised legislation through the public company Slovenian Railways. The newly set up Directorate for Rail Transport will, as part of the Ministry of Transport, implement and monitor the regulations related to the implementation of the *acquis*. Subsequently, the Directorate for Rail Transport is to transfer its competencies related to the implementation of the *acquis* to the envisaged Rail Agency, that is to be established in early 2002. The Rail Agency will be a public agency independent from the Ministry of Transport.

All the key institutions necessary for implementing the relevant *acquis* in the field of air transport are in place. However, the independent air accidents investigation body envisaged in the Aviation Act is still not operational.

Administrative capacity is generally appropriate for implementing the *acquis* in the field of maritime transport. The recently adopted Maritime Code is the legal basis for the setting-up of any new institutions in this sector. The body responsible for the management of the Vessel Traffic System, the CROSS Centre, should be further reinforced through additional staff.

Chapter 10: Taxation

Slovenia has made some progress in this area since the last Regular Report, especially in the field of excise duties.

In the field of **indirect taxation**, the Act Amending the Excise Duty Act was adopted and entered into force in May 2001. The amendments fixed a 0-Euro level of excise duty for

fermented beverages in order to harmonise the rate of fermented beverages with that of wine as is required in the relevant EC directive. The amendments increased the excise duty level of methane to the same level as for liquid petroleum gas, which is above the EC minimum rate. In addition, the amendments abolished the obligation of stocktaking for mineral oils, alcohol and alcoholic beverages if, at the moment of change of excise duty, the goods are in stock outside the tax warehouse and the excise duty has already been paid on them. The excise duty on ethyl alcohol was increased by 25% in February 2001 and it thus reached the EC minimum excise duty rate. No developments have taken place concerning VAT.

No developments can be reported in the areas of **direct taxation, administrative co-operation, and mutual assistance**.

The law on transformation of duty free shops at road border crossings with Italy and Austria into normal retail shops was adopted in January 2001 and entered into force in August 2001. These shops were transformed into normal retail shops in September 2001.

Concerning administrative capacity, fundamental tax functions were transferred from branches to tax offices. The code of ethics of tax administration including standards of conduct and ethical values of employees as well as rights and duties of taxpayers, adopted in 1999, was put into practise during the reporting period.

Overall assessment

Slovenia is already well advanced in its preparations for accession in this field.

The introduction of the key legislation concerning VAT and Excise Duties in July 1999 and the amendments in the field of excise duties, adopted in May 2001, represented substantial steps forward in alignment with the *acquis*. For instance, most Slovenian excise duty rates for mineral oils, alcohol and alcoholic beverages have now reached the EC excise duty minimum rates. However, some minor adaptations are still necessary in these sectors.

Slovenia in April 2000 declared its readiness to acknowledge the Code of Conduct for Business Taxation. Slovenia should ensure that its legislation complies with the principles of the Code upon accession to the same extent as current Member States.

Further efforts have been made to strengthen administrative capacity, the administrative co-operation and mutual assistance in the tax administration. The implementation of the modernisation programme began in -1999 is continuing. The Department for the International Exchange of Data (CLO) was set up in July 1999. An administrative co-operation department was created in April 2000 for the excise duty system implementation, to carry out tasks such as the exchange of excise data and co-operation with the EU Member States. The basic infrastructure for setting up an integrated tax information system was established, followed by the implementation of systemic solutions and the setting up of a computing centre in July 2000. However, further strengthening of the administrative capacity and control procedures is necessary. Slovenia should in particular focus on continuing to develop IT systems allowing for the exchange of computerised data with the EC.

Chapter 11: Economic and monetary union

A detailed assessment of Slovenia's economic policy in its various aspects has been given above, in the Chapter discussing the economic criteria (b.2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis* - as defined by title VII of the EC treaty and the other relevant texts - which candidate countries should implement before accession, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

Since last year's Regular Report, no new legislative developments can be reported.

Overall assessment

Slovenia will participate in EMU upon accession with the status of a country with a derogation under article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Overall, Slovenia has already achieved a substantial degree of compliance with the *acquis*.

Regarding the **prohibition of direct public sector financing by the central bank**, however, Slovenia does not yet comply with the *acquis*. The current Bank Act of Slovenia provides for the possibility for the Central Bank to grant short-term loans to the Government, even though this provision has never been used.

Concerning **central bank independence**, the Bank of Slovenia Act should be amended concerning especially the personal independence of the Governing Board (terms of office, judicial control, procedures and grounds for dismissal) and on financial and institutional independence.

An amendment to the Central Bank law addressing these issues was presented to the Parliament in July 2000 but it still remains to be adopted.

With the adoption of the new Pension and Disability Insurance Act (in December 1999) and an Insurance Act (in January 2000), Slovenia abolished the possibility of **privileged access of the public authorities to the financial institutions**, as far as institutional investors are concerned. However, some provisions in the Law on Banking relating to banking deposit guarantee funds still need to be amended.

Chapter 12: Statistics

Slovenia has achieved quite a good level of alignment and progress can be recorded in a number of areas since the last Regular Report.

Progress has been made in the area of **statistical infrastructure** by the adoption of the Law on National Statistics in January 2001. The law provides for the independence of the Statistical Office, the protection of confidentiality of statistical data and improved monitoring of statistics

research programmes. The administrative capacity of the Statistical Office (SORS), which is the central statistics producer within the country and co-ordinates the work of other bodies active in the area of statistics production, has been strengthened by the recruitment of 13 new staff.

Progress has also been made concerning sectoral statistics. In the field of **demographic and social statistics**, including labour force surveys, business registers and other register-based statistics, methodological preparations have been completed and the time-use survey was continued. An ad hoc model for working time and labour costs monitoring has been introduced in labour force statistics. Amendments to the Law on Census, Population, Households and Housing were adopted in March 2001, and the Census was postponed until 2002.

As for **business statistics**, structural business statistics (SBS) have been developed further and a new database was designed in March 2001. Comparative statistics for the period starting in 1995 were completed in February 2001. A new system of data collection was prepared at the beginning of 2001 in the field of energy statistics. Several statistics were published in 2001 in the tourism area, mainly focussed on accommodation statistics.

As regards availability of statistics at the **regional** level, the Slovene proposal concerning level 3 was incorporated in the NUTS classification system of Eurostat. Efforts are ongoing to compile data at regional level and store them in a single framework.

Concerning **macro-economic statistics**, and especially the European System of Accounts (ESA-95), the quality of annual economic accounts in current prices has been improved and institutional sectorisation of business register units has been completed since the last Regular Report. However, quality improvements and some aspects of methodology using ESA-95 are still to be implemented.

As regards **agricultural statistics**, the agricultural census was successfully completed in 2000, and the results provide a basis for and strengthen the whole agricultural statistical system.

Overall assessment

Slovenia is very well advanced in the field of statistics. The Statistical Office has appropriate personnel, information technology and, to a certain extent, finances. However, disseminating methodological know-how should be given further attention, especially in the area of macro-economic statistics.

Chapter 13: Social policy and employment

Some progress has been made in terms of transposition of the *acquis* since the last Regular Report.

No new developments have taken place in the field of **Labour Law**.

As regards **equal treatment for women and men**, the Office for Women's Policy was renamed the Equal Opportunities Office by a Government decision in February 2001. It is directly under the responsibility of the Government and has six employees. A founding charter for the coalition for equal representation of both sexes in public life was adopted by the Equal Opportunities Office and the Information Centre of the Council of Europe in February 2001.

Four regulations in the field of **health and safety** at work were adopted in the period January to May 2001 in order to transpose the acquis concerning work on board fishing vessels, risks related to exposure to noise at work, medical treatment of crew on board vessels and asbestos risks.

As regards **public health**, budgetary funds were earmarked in 2001 to provide expert support and training to the Institute of Public Health to carry out measurements of harmful substances in tobacco, taking into account the requirements of the new EC acquis. Since 2000, Slovenia has taken part in the European network for influenza surveillance and the European sero-epidemiological network ESEN II.

No specific new developments can be reported with regards to **social dialogue**, which continues to contribute to the legislative process and collective bargaining.

The unemployment in year 2000 dropped to the historically low level of 7.0 %. In the area of **employment policy**, the Ministry of Labour, Family and Social Affairs, working in co-operation with the Commission initiated the follow-up process of the priorities and commitments in the Joint Assessment of Employment Priorities agreed in 2000.

A **European Social Fund (ESF)** Department was formed in April 2001 within the Ministry of Labour, Family and Social Affairs. It will have six staff when fully established. It will provide legal expertise and the infrastructure required to programme, implement, manage, monitor, evaluate, control and co-ordinate the ESF interventions in Slovenia. It will also provide the information system for monitoring the implementation of ESF interventions and, supported by EU experts, train staff who will carry out tasks relating to the ESF in Slovenia.

In the field of **social protection**, the Act Amending the Social Security Act was adopted in March 2001. The aim of the amendments is to increase social security in an attempt to fight poverty. The Child Benefit Act was adopted in March 2001. The aim of this law is to preserve the current selective system of children's allowances until the adoption of the new parental Protection and Family Benefit Act. The selective approach to allowances envisages higher levels of benefit for socially endangered families. Within the framework of the pension system reform, the Pension and Invalidity Act was amended in December 2000 with a change in the method of pension adjustments so that they follow the trend in wages.

No particular developments occurred concerning **anti-discrimination**.

Overall assessment

The overall situation concerning social policy and employment is good, but legislative alignment is still slow.

The Employment Relations Act and the Parental Protection and Family Benefit Act still remain to be adopted. The Act Amending the Social Security Act introduced some innovations relating to social security payments to beneficiaries, the amount thereof, the amount of the minimum income per family member and acquisition of necessary data. A Guarantee Fund for the protection of employees has been in place since 1997.

The social dialogue is very well developed in Slovenia. Social partners are involved in the adoption of new legislation and tripartite dialogue between the social partners and the

Government is regularly conducted notably in the fields of wage policy and with social agreements. Thorough discussions were held between the Government, employers' organisations and the trades unions regarding the Employment Relations Act, Collective Agreements Act and the Civil Servants Act, as well as executive regulations for the implementation of the Safety and Health at Work Act. This has often led to a lengthy legislative process in the Parliament. This has been the reason for the delays in the adoption of the Employment Relations Act. There is a need for a better understanding of the contribution that social dialogue can make to the legislative process and also of the limits of such contributions. Also, the development of autonomous bipartite social dialogue should be encouraged further.

The programme of the current Government has two main goals for the social sector: an efficient wage policy based on social partnership and a social security policy which includes an active employment policy. This would include the signing of a social agreement for the period 2001-2004 with a package of laws on wages, employees' rights, social security and an active employment policy. Concerning pension and invalidity insurance, harmonisation will take place once a year based on the principle of linking increases between pensions and wages.

Regarding employment, the Joint Assessment of the Employment Policy Priorities (JAP) represents an important step in the preparation for accession. Slovenia should now ensure effective monitoring of the implementation of the priorities and commitments contained in the JAP.

Preparation for the work of the European Social Fund has been slow, notably because of the lack of decisions on the overall structures for the management of the Structural and Cohesion Funds after accession. The administrative capacity of the Ministry of Labour and Social Affairs, which is foreseen to have the leading role in ESF interventions, should be reinforced notably in the areas of monitoring and evaluation as well as financial control. It will also need to ensure proper co-ordination.

As noted last year, there continues to be a need to strengthen the public employment service, as well as the public administration and enforcement structures in most areas of social policy, and in particular in the areas of health and safety at work, labour market and social policies. The ban on discrimination is provided for in the Constitution and the Penal Code, and special rights are granted to the Italian and Hungarian national communities, as well as to the Roma Community. Further efforts are needed to ensure alignment with the *acquis* on anti-discrimination based on art. 13 of the Treaty. (See also section B.1.2 - *Human rights and the protection of minorities*)

The fight against exclusion, as laid down in art.136 of the Treaty establishing the European Community, is part of the objectives of the EU social policy. As decided at the Lisbon and Nice European Councils, policies to combat social exclusion combine commonly agreed objectives at the EU level and national action plans. The Gothenburg European Council in June 2001 invited candidate countries to translate the Union's objectives of promoting social inclusion into their national policies.

Chapter 14: Energy

Slovenia has made significant progress in this area during the period covered by this Regular Report.

Concerning **security of supply**, the constitution of 90 days' oil stocks has been continued in accordance with the government plan which aims to reach the level of 47 days by the end of 2001. Current emergency oil stocks stand at somewhat less than one third of the eventually required level. An agreement with Germany concerning storage of part of Slovenia's oil reserves in Germany was ratified by the Parliament in May 2001. Slovenia will temporarily keep part of its mandatory oil reserves in EU Member States due to the lack of storage facilities.

Slovenia has made continuous progress on **competitiveness and the internal energy market**. A number of decrees were adopted in April 2001 in preparation for the opening of the energy markets. These concern the independent regulatory authority (the Energy Agency), abolition of the monopoly in electricity supply and distribution, regulations on market share, and operation of electric power systems and trade. As of April 2001, Slovenia's domestic *electricity market* has been opened in line with the Energy Act, allowing the largest electricity users to choose their electricity provider. As regards the natural gas market, a decree regulating the transport and distribution of natural gas in Slovenia was adopted in January 2001.

In the field of *solid fuels*, the Law on State Guarantees for Financing the Gradual Closure of the Coalmine Trbovlje Hrastnik in 2001 was adopted in April 2001. This law foresees a SIT 2.229 billion (€10.36 million) allocation from the budget and in the form of loans guaranteed by the state for the closure of the Trbovlje Hrastnik coalmine.

As regards **energy efficiency** and the use of renewable energy sources, Slovenia has continued to promote various initiatives favouring efficiency. These include awareness raising, financial incentives and tax incentives for certain household appliances.

In the field of **nuclear energy**, the Slovenian and Croatian governments have finally signed an agreement concerning the dual ownership by Slovenia and Croatia of the Krško nuclear power plant (NEK). According to the agreement, both countries will be joint owners and have joint responsibility for waste and past liabilities. The agreement still remains to be ratified by both Parliaments. Also, the Paris Convention on Third Party Liability in the field of nuclear energy and the Brussels supplementary convention were ratified in April 2001.

As regards nuclear safety, Slovenia has continued to make progress on safety improvement by completing the 1998-2000 modernisation programme at NEK. A continuous backfitting and upgrading programme and a large modernisation programme, including the replacement of steam generators and a full-scope simulator, have been carried out. The Slovenian Nuclear Safety Administration made serious efforts to re-evaluate the seismic hazard of NEK by commissioning further investigations which concluded that the seismic risk of the site is within the limits of the seismic design parameters applied for the construction and operation of NEK. The experts recommended improving the seismological network and including a high-quality station in the area for detection of small tremors and local earthquakes and determination of their hypocentres. The Maritime Code adopted in March 2001 forbids sailing of nuclear fuel-driven ships into Slovene waters and their registration in Slovenia.

Concerning administrative capacity, the energy sector of the Ministry of the Economy was transferred to the Ministry of Environment and Spatial Planning in 2001. A new independent body, the Energy Agency, became operational in January 2001 as required by the Energy Act. It will oversee both the electricity and gas markets and its competencies include pricing, dispute settlement and licensing.

Overall assessment

With the adoption of the Energy Act, the Mining Act, the Amended Commodities Reserves Act and the subsequent pieces of secondary legislation, alignment with the *acquis* in the energy sector in Slovenia is well advanced. The framework regulations are in place.

In the field of security of supply, Slovenia has achieved satisfactory progress in the constitution of oil stocks, having gradually increased its stocks to the current level. Efforts have been made in order to overcome the lack of storage capacity for oil stocks by concluding an agreement with Germany. Efforts to build the oil stocks up towards the level of 90 days should continue.

On competitiveness and the internal energy market, the opening of the domestic electricity market and the setting-up of its regulator, the Energy Agency, constituted a positive development. However, the ongoing liberalisation of the internal energy market needs continued attention: in particular, remaining price distortions, notably in the electricity sector, should be eliminated. Slovenia should continue its efforts to improve energy efficiency and the use of renewable energy. On solid fuels, Slovenia should complete the restructuring process.

As regards administrative capacity, Slovenia has set up the necessary institutions: the Energy Agency, the Agency for the Efficient Use of Energy, the Agency for Oil Stocks and, in the nuclear field, the Slovene Nuclear Safety Administration. These bodies need to be further reinforced.

As regards the issue of nuclear energy, the European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries. In June 2001, the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. This report contains findings on the situation and perspective regarding nuclear safety in each candidate country, as well as recommendations for specific improvements. In July, the Commission conveyed this report to the candidate countries.

General recommendations of the Council Report call for all candidate countries with nuclear power plants to complete their plant-specific safety improvement programmes, and to ensure that their programmes include measures considered good practice within the European Union, particularly regarding various specified safety measures such as assessment practices, emergency procedures, feedback of experience, resources of the regulatory authority and other aspects.

The report recommends all candidate countries should continue their national programmes regarding the safe management of spent fuel and radioactive waste, and regarding the safety of their research reactors.

With regard to Slovenia, the Council Report recommends five specific measures to ensure the safe operation of the Krško NPP and other nuclear installations. The recommendations include completion of the revision of the 1984 Act on radiation protection and the safe use of nuclear energy, an action plan to ensure adequate resources for the regulatory authority, the seismic qualification of the Krško NPP, and a national emergency response plan.

The safety of the NEK - which has a PWR reactor of Western design - is comparable to that of Western European nuclear power plants. A modernisation programme was successfully

implemented in the period 1998-2000. A project for increasing the existing capacity of the spent fuel storage pool at NEK is being implemented and will be concluded in 2003.

Slovenia will need to ensure compliance with Euratom requirements and procedures. In this respect continued attention should be given to preparing the implementation of the Euratom Safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or structures operating nuclear installations or storing nuclear material. It should be noted that Slovenia has concluded a Full Scope Safeguards Agreement with the International Atomic Energy Agency (IAEA). An additional protocol to this agreement is in force since August 2000.

*Chapter 15: Industrial policy*²²

Slovenia has made some progress in this area since the last Regular Report.

In the field of **industrial policy**, Slovenia has continued to implement the "Strategy for Increasing Competitiveness of Slovenian Industry", adopted in 1996 and last updated in 2000. The measures aim at increasing productivity, encouraging the linking of companies and development of 'clusters', and promoting the internationalisation of Slovenian companies and new investments, as well as encouraging technological development and innovations. A revised version of the programme that aims to attract more foreign direct **investment** was adopted in July 2001. Special emphasis is put on removal of administrative barriers.

Regarding **restructuring** of Slovenian industry, two programmes were adopted in June 2001 for the adaptation of Slovenia's textile, leather and shoe industries to the EU internal market between 2001 and 2003. Both programmes are intended to support marketing and modernisation projects in these three sectors.

In the area of **privatisation**, the Government made a decision in April 2001 on restructuring of the Slovenian Development Corporation (SDC), a body that owns state companies. Its liquidation is foreseen by the end of 2001.

Since the beginning of 2001, the Government has been actively supporting the development of industrial clusters. Three clusters were identified for support in the transport and tool-making sectors, and one in the Port of Koper. They are due to become self-sustaining in 2003.

Overall assessment

Overall, Slovenia's policy towards industry is by and large in conformity with the principles of EC industrial policy, i.e. market-based, stable and predictable. Slovenia has made good progress in this area over the past few years and figures for industrial production have been very positive. Slovenia has used innovative methods, in particular in the benchmarking of different industrial sectors. The Government is envisaging a new strategy for economic development which has among its priorities the transition to a know-how society, increasing competitiveness and restructuring of companies.

²² Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (see chapter 16 - *Small and medium-sized enterprises*).

In addition, Slovenia has begun to shift from direct intervention in companies to horizontal measures for the promotion of competitiveness. Although direct assistance to companies in the form of subsidies is still present, efforts have been made to increase the transparency of the measures and to limit their duration.

There has been progress in the restructuring and privatisation of two key sectors: the textile/footwear and steel sectors. The textile and footwear sector plans foresee no capacity increases and contain welcome measures. The steel restructuring programme, adopted in September 2000 and submitted to the Commission in October 2000, is considered to be in line with Protocol 2 of the Europe Agreement. However, it is important that it is implemented as planned.

In the field of investment promotion, the strategy adopted in 2000 and upgraded in July 2001 to attract FDI has not been very effective so far. While administrative barriers pose difficulties to both Slovene and foreign businesses alike, the effects are most visible as concerns foreign companies. Together with the elimination of cumbersome procedures, a key way of increasing investment would be the implementation of an active policy to increase availability of industrial land.

The Ministry of Economy is the central body responsible for the formulation and co-ordination of industrial policy. The Trade and Investment Promotion Office (TIPO) is responsible for promotion of entrepreneurship and investment in Slovenia. The administrative capacity in this field appears to be satisfactory.

In order to complete the restructuring and privatisation process successfully and to increase the competitive potential of its industry, Slovenia should create better conditions for foreign direct investments, support the internalisation of Slovenian enterprises, support technological development and define effective policies for regional development and economic and social cohesion.

The role of the public sector in industry is still too important and further privatisation is necessary. The planned liquidation of the SDC is a vital step forward in the finalisation of the restructuring/privatisation process and it is important that the adopted timetable should be maintained.

The work of business associations and their dialogue with the Government continues.

It should be noted that an important element of any industrial policy is the control of state aid and that the compatibility of support schemes with EC rules, including the current rules on state aid of the ECSC Treaty, will have to be examined. (*See also Chapter 6 – Competition*).

Chapter 16: Small and medium-sized enterprises²³

Slovenia has made some progress since the last Regular Report as regards SME policy.

²³ Developments concerning SME policy should be seen in relation to the overall enterprise policy, including Industrial policy. (*see Chapter 15 – Industrial policy*)

Slovenia's **SME policy** is based on creating a favourable business environment, developing employment opportunities, internationalisation and the new economy. New instruments under the SME strategy that have been introduced include interest-free loans, guarantees and interest-rate subsidies. In addition, Slovenia continues to implement measures for development of entrepreneurship, including financial support for women's entrepreneurship and for work at home and at a distance.

As regards the **business environment**, the Company Act was amended in May 2001 to simplify the start-up of companies by removing administrative barriers. In April 2001, the Government set up an inter-ministerial Commission and adopted a time schedule for implementing measures belonging to the "Anti-Bureaucracy Programme" adopted in 1999.

The Government adopted in spring 2001 a comprehensive programme for years 2001-2002 to promote entrepreneurship, internationalisation of companies, company networking, cluster development, increasing productivity and technological development and innovations.

At the end of year 2000 the Ministry of Small Business and Tourism merged with two other Ministries into a single Ministry of the Economy with a State Secretary responsible for entrepreneurship and competitiveness. Following this re-organisation, the Small Business Development Centre is now being developed as a central co-ordination point for all activities related to SME development, including co-ordination of the anti-bureaucracy programme. The two new Euro Info Centres in Koper and Maribor have been operational since early 2001 and have already promoted a number of initiatives.

Overall assessment

Slovenia's SME policy is generally in line with the principles of EU enterprise policy.

Access to finance is the main obstacle to the development of SMEs in Slovenia. Some innovative financial instruments are being introduced (such as the first business angels network). Venture capital should be developed and access to foreign capital should be made easier for SMEs, mainly through an effective reform of the financial system. A key element to improve the business environment for SMEs in Slovenia is the implementation of the "Anti-Bureaucracy Programme" adopted in 1999. It contains a list of measures to develop entrepreneurial culture, to simplify administrative procedures and boost self-employment. However, its implementation needs to be improved urgently. The adoption of a schedule for implementing the planned measures is a positive step.

The **definition of SMEs** is not yet fully aligned with the recommendations of the European Commission.

Administrative capacity in the field of SMEs appears satisfactory. Co-operation between the different Ministries and other public bodies (Small Business Development Centre and Small Business Development Fund, regional and local agencies) has improved since the creation of the Ministry of Economy. However, co-operation between the authorities on one hand, and the organisations representing the business community and the SMEs on the other, should be strengthened.

Chapter 17: Science and research

Further progress has been made in this area since the last Regular Report.

The Rules on Infrastructure Development Centres adopted in June 2001 lay down the procedures and criteria for the classification of infrastructure development centres and define infrastructure development centres as technological parks. The Rules on the Promotion of Technological Development adopted in June 2001 determine the criteria for obtaining funds for research related to the development of the economy and public infrastructure.

Slovenia continued to be fully associated with the Fifth Framework Programme, as well as with the Euratom Framework Programme. As other countries associated with the Fifth Framework Programme, Slovenia has been granted observer status in CREST (*Comité pour la Recherche Scientifique et Technique*).

Overall assessment

Slovenia is well advanced in this area, and policy and legislation in this field are in line with EU-guidelines. The Act on Support of Companies Developing New Technologies and Setting up and Managing their Development Units in the Period from the Year 2000 – 2003 is a valuable effort to stimulate the business expenditure on research. The inter-ministerial working group set up in January 2000 to enable close co-operation in the implementation of the Fifth Framework Programme continues its operation. The National Contact Point (NCP) system continues to function.

The level of the existing gross domestic expenditure on research and development approaches the EU average.

The success rate of Slovenia's tendering for projects in the Fifth Framework Programme is good and comparable to the success rate achieved by EU Member States. Though the association with the Fifth Framework Programme continues to function well, further reinforcement of the research-related administrative capacity and strengthening of research-related infrastructure would be beneficial.

The strengthening of the link between the private sector and science and research in particular through transfer of know-how would be welcome.

Chapter 18: Education and training

Slovenia has made progress in this area since the last Regular Report. In the reference period, Slovenia started to participate in the second generation of **Community programmes** Socrates and Leonardo as well as in the new Youth Programme (*see section A.b - Relations between the European Union and Slovenia*).

As regards **reforming its education and training system**, a law on special rights of the Italian and Hungarian Minorities in the education system was adopted in April 2001. It brings the rights of the Italian and Hungarian minorities into line with the new Slovenian education legislation. The amendments to the law on Elementary Schools adopted in July 2001 delayed the introduction of nine-year elementary education by one year. The amendments to the law on Gymnasiums

adopted in July 2001 established the same conditions for enrolling all pupils who finished the 8-year elementary school as well as those who completed the 9-year elementary school.

The Ministry of Education and Sport was merged with the Ministry for Science and Technology. The unit for European Affairs in the new Ministry of Education, Science and Sport has four employees.

Overall assessment

Slovenia is fully aligned with the *acquis* in the field of education, training and youth, including the Directive concerning the education of children of migrant workers.

Participation in the relevant Community programmes is satisfactory and the number of applications is constantly increasing. The agencies established are functioning well, however, sufficient staff has to be ensured, taking into account the increasing number of applications. The Unit for European Affairs in the Ministry of Education, Science and Sport should be strengthened as well. The Law on National Occupational Qualifications, which was adopted in August 2000 and regulates the procedures, bodies and organisations for obtaining national vocational education, represented an important step for the development of the education and training system. On the whole Slovenia has made significant progress in re-orienting its system to make it suitable for a small open-market economy aiming at international competitiveness.

Chapter 19: Telecommunications and information technologies

Substantial progress has been achieved in the telecommunications sector since the 2000 Regular Report but there was little progress in the postal sector in this period.

Regarding the **liberalisation of the telecommunications markets**, all special and exclusive rights have been removed as from 1 January 2001 including those of the fixed line incumbent Telekom Slovenije. However, the new Telecommunication Act of 2001 foresees some transitional measures, namely for cost-oriented leased lines, cost accounting of operators with significant market power, number portability for non-geographical numbers and unbundling of the local loop. These measures will expire in July 2002. Following a public tender in January 2001, three licences were granted for the provision of mobile services at 1800 MHz radio frequencies for mobile telephony services. The same three operators are now licensed to operate at 900 MHz and 1800 MHz. A new numbering system was introduced in November 2000. Progress towards the rebalancing of tariffs was made through two Government decrees in March 2001. Tariff reductions for Internet access were introduced in March 2001 as a means of promoting Internet access. A tender for UMTS licences was launched in September 2001.

As regards the **regulatory framework**, the new Telecommunication Act entered into force in May 2001. This Law transposes a substantial part of the *acquis*, including the Directive concerning the processing of personal data and the protection of privacy in the telecommunications sector. However, additional secondary legislative measures are still required. The Agency for Telecommunications and Broadcasting was established in July 2001.

Concerning the e-Europe + Action Plan, a strategy for electronic operation of public administration was adopted in February 2001.

No developments have taken place since the last Regular Report in **postal services**.

Overall assessment

Legislative alignment in the telecommunications sector is well advanced and enforcement has started. Important practical measures have been adopted to build on the initial commitment made in the Telecommunications Act of 1997 to remove all special and exclusive rights in the telecommunications sector on 1 January 2001. Licences have been awarded in the mobile GSM market, and these should lead to effective competition once networks have been rolled out in 2002. Measures have been introduced to regulate the dominance of the incumbent in both the fixed line and Internet markets. Effective competition can be anticipated in all parts of the market as soon as the transition periods have expired except for the UMTS services where it appears that as a result of the modalities of the recent tender, only one company has submitted a bid. This would effectively create a UMTS monopoly and the result would be inconsistent with Community policy in this sector.

Slovenia should now continue with the preparation of secondary legislation in order to complete it by the end of 2002, in accordance with the timetable set. Further progress is needed in establishing cost models for significant market-power operators, as these would enhance moving towards cost orientation of prices as soon as possible. The speeding up of the schedule for unbundling of the local loop and for providing full number portability for non-geographical numbers in 2002 is a welcome development.

In view of the substantial liberalisation of the markets in January 2001 and the many measures which need to be taken, especially the application of asymmetric regulation as foreseen in the *acquis*, the Agency for Telecommunications and Broadcasting should as a priority be provided with adequate financial and human resources, including training of its staff.

Slovenia has partly aligned with the *acquis* in the field of postal services through the adoption of the Postal Service Act in 1997. However, since then alignment has been slow and further steps are required to enable full liberalisation in providing postal services. In addition, an independent regulatory authority has to be established before liberalisation to ensure smooth implementation and effective enforcement of the *acquis*.

Chapter 20: Culture and audio-visual policy

Substantial progress has been made on alignment with the **audio-visual** *acquis* since the last Regular Report.

The Mass Media Act was adopted in April 2001. The act brings Slovenia's legislation largely into line with the Television without Frontiers Directive, and also incorporates regulations for advertising, safety measures for the protection of youth, and a legal framework for technologies in a joint EC audio-visual market. The current competencies and powers of the Broadcasting Council have been extended by the new Act. In addition, amendments to the Law on Radiotelevizija Slovenija were adopted in September 2001 to ensure compliance with the Mass Media Act and to bring it in line with the Directive.

The Agency for Telecommunications and Broadcasting was established in July 2001.

No new developments can be reported concerning Community actions in the field of **culture**.

Overall assessment

On the whole, Slovenia is well advanced in aligning with the Community *acquis* in this area.

The Mass Media Act, which sets the legal framework for Slovenian media in general, is to a large extent in line with the relevant provisions of the Television Without Frontiers Directive. The necessary secondary legislation should be adopted within the given time-frame.

Slovenia has signed and ratified the Council of Europe Convention on Transfrontier Television and its Protocol.

The number of staff in the Media Department, which was established in the Ministry of Culture in 1999, is adequate. The Department is responsible for implementation of the framework requirements and for administrative supervision, as stipulated in the Mass Media Act. The Broadcasting Council, as the competent regulatory body, is responsible in particular for awarding and withdrawing radio and television licences and prevention of law infringements. It is now integrated in the recently established Agency for Telecommunications and Broadcasting. The Agency for Telecommunications and Broadcasting will monitor the stipulated programme requirements and the restrictions concerning television and radio programmes set by the Broadcasting Council. The Council has the authority to decide on the distribution of frequencies.

It is important that sufficient co-ordination between all the relevant bodies is ensured in implementing the law. The Agency should also have sufficient equipment. The Council should be given the necessary human and technical resources to cope effectively with the powers provided by the new Mass Media Act.

Chapter 21: Regional policy and co-ordination of structural instruments

Since the last Regular Report, limited progress has been achieved in preparing for the implementation of structural policies.

No progress has been made with regard to the establishment of a **territorial organisation** allowing for effective implementation of the Structural Funds Regulations.

No particular developments have taken place since the latest Regular Report as regards the **legislative framework**.

Concerning Slovenia's **institutional structures**, no particular progress has been made since the last Regular Report. In May 2001, the Government decided to employ ten new staff in the National Agency for Regional Development, which will be the central institution for the implementation of Structural and Cohesion Funds after accession. In April 2001, a unit to handle future European Social Fund (ESF) interventions was set up in the Ministry of Labour and Social Affairs.

With regard to **programming**, sectoral working groups were set up in November/December 2000 led by the relevant line ministry for each of the envisaged priority tasks of the National Development Plan. These groups are responsible for evaluating the effects of the plan on the

environment, for ensuring gender equality and for evaluating the effects on employment and social inclusion in society.

In order to ensure the application of the **partnership principle**, a supervisory board for the preparation of the National Development Plan has been set up by the Structural Policy Council in February 2001.

A group for **monitoring and evaluation**, consisting of representatives of ministries responsible, the Statistical Office and the Institute for Macro-economic Analysis and Development, was set up in March 2001 with the task of determining the common quantified aims for the development plan. It held its first meeting in the same month.

Concerning **financial management and control**, Slovenia adopted budget outlines for the years 2002-2005 in July 2001.

As regards **statistics**, no particular developments for the management of Structural Funds are to be reported since the latest Regular Report.

Overall assessment

Slovenia needs to substantially speed up its efforts in order to be able successfully manage the Structural Funds upon accession. Above all, the administrative capacity of the units within the Ministries to be designated as future Managing and Paying Authorities will need to be considerably strengthened in order that they will effectively be able to take the responsibility for efficient and correct management and implementation of Structural Funds. Slovenia should also continue its efforts to develop the necessary structures and co-ordination mechanisms for the European Social Fund interventions in the context of the European Employment Strategy and the Inclusion Process.

Slovenia's territorial organisation is based on 12 units corresponding to NUTS III level. In September 2000, Slovenia proposed to the Commission a new territorial organisation corresponding to the Member States' NUTS classification. This new classification divides Slovenia into two regions corresponding to NUTS II, namely the "Ljubljana Urban Region" comprising the capital Ljubljana as its centre and the "Rest of Slovenia Region". The proposed territorial breakdown for the two areas corresponding to NUTS II level was not accepted by the Commission in October 2000 as it would have created an unbalanced breakdown of Slovenia in terms of population figures, while treating Slovenia as a whole as one NUTS level II region would be quite close to the EU 15 average. This issue is still under discussion. Slovenia urgently needs to agree with the Commission on a provisional NUTS classification which would allow for the effective implementation of the structural funds upon accession.

Slovenia has adopted the framework legislation needed to implement the *acquis* in this Chapter.

Some progress has also been made as regards the setting up of the institutional structures. The National Agency for Regional Development, the central institution for implementation of the funds upon accession, has already been established. The Slovene authorities should urgently take a number of fundamental decisions on the implementation of the Structural Funds Programming, most notably concerning the nomination of the managing and paying authorities. Furthermore, the role of the line ministries and other bodies acting under the responsibility of the

future managing and paying authorities needs to be clarified. Efficient inter-ministerial co-ordination will need to be ensured. The Commission should have a single counterpart who has the authority and competence to steer the programming and implementation process based on a political consensus.

With regard to programming, the adoption of the National Development Plan for 2002-2006, which will serve as the basis for the establishment of the development plan required by the Structural Funds Regulations, is delayed. No decision has yet been taken regarding the form of assistance to be provided under the Structural Funds to Slovenia (Single Programming Document or Community Support Framework). It is of great importance that Slovenia quickly decides on the organisation and nature of the programmes as well as the implementation structures of the final plan. Multi-annual programming has already been introduced with the adoption of the Public Finance Act in 1999. Slovenia will have to ensure that the partnership principle is respected with regard to programming, implementation, monitoring and evaluation of assistance. Substantial progress is needed at the level of the technical preparation of projects eligible for Structural and Cohesion Fund assistance (project pipeline).

The capacity of the National Agency for Regional Development to co-ordinate all activities related to monitoring and evaluation needs to be further developed. An appropriate system and capacity for monitoring and evaluation needs to be built up in due time, both centrally and within the emerging implementation structure, in order to ensure effective and efficient implementation of the Structural Funds.

Slovenia has generally made good progress in the field of financial management and control. The procedures for financial control, auditing, certification of expenses and correction of irregularities are being put in place. Internal audit units have been established in eleven out of fourteen ministries on the basis of the decision taken in 1999 introducing a decentralised system of internal audit services. The central audit service within the Budgetary Supervisory Service ensures the co-ordination of these services. However, these departments still need to be strengthened. The training of internal auditors should be a priority in this respect. Common guidelines for the internal audit services still need to be drawn up. Slovenia has aligned itself with the indicative planning of public finance expenditure in use in the EU Member States, with the introduction of multi-annual planning. Appropriate systems and procedures for financial management and control need to be established in relation to the structure of the managing and paying authorities in order to fulfil the specific requirements of the Structural Funds regulations.

As to statistics, the key indicators necessary for the management of the Structural Funds are available for the national level. A separate division for regional statistics was set up within the Statistical Office of the Republic of Slovenia at the end of 1998. However, its working capacity is still limited. The compilation of data needs to continue, and the quality and coverage should be further refined.

Chapter 22: Environment

Since the last Regular Report, Slovenia has continued to make progress in terms of transposition of the EU environmental *acquis* and with the preparations for the implementation of EC directives.

With regard to the **integration of the environment into other policies**, recommendations for the integration of sustainable development principles into the planning process by performing early environmental impact assessments were issued in the reporting period.

In the field of **horizontal legislation**, the Strategy and action programme for the reduction of greenhouse gas emissions was adopted in November 2000. Concerning civil protection, the Law on Ratification of the International Convention on readiness, response and co-operation in case of oil spills was adopted in April 2001.

As regards **air quality**, amendments to the decrees on air emissions from heating boilers and on the CO₂ emission tax were adopted in November 2000 and December 2000 respectively. A decree concerning vehicle exhaust emissions vehicles and the type of fuel used was adopted in December 2000. Two regulations on liquid fuels quality were also adopted in 2001.

In the **waste management** sector, a decree on Packaging and Packaging Waste Treatment came into force in November 2000. The purpose of the decree is to reduce the quantity of packaging waste and to reduce harmful environmental impacts caused by the materials and substances contained in packaging and packaging waste. In addition, a decree on Treatment of Batteries and Accumulators Containing Dangerous Materials came into force in November. Amendments to the decree on export, import and transit of waste, and to the price list of public services for handling nuclear waste were adopted in October 2000 and in November 2000 respectively. Books of rules for packaging and packaging waste and for handling batteries and accumulators containing dangerous substances were also adopted in November 2000.

Slovenia passed several decrees on **water quality** in October 2001, in particular concerning wastewater from the production of non-ferrous metals, from casting of iron and from production of iron and steel. A decree on quality of surface waters used for water supply was adopted in December 2000. As regards the waste water treatment plants directive, vulnerable areas were identified by the amendments to the decree on the emission of substances in the discharge of waste water from urban waste water treatment plants adopted in April 2001. In relation to the nitrates directive, the whole territory of Slovenia has been defined as a sensitive area by a decree on the input of hazardous substances and plant nutrients into the soil adopted in May 2001. A decree on the quality of surface waters extracted for drinking water supply was adopted in December 2000, and rules on the monitoring of the quality of surface waters extracted for drinking water supply in May 2001.

In the field of **nature protection**, progress has been made on the drawing-up of the relevant executive acts and expert bases for designating Special Protection Areas (SPA) and potential Sites of Community Importance (pSCI) and on the administrative organisation for implementation of the Convention on international trade in endangered species of wild fauna and flora (CITES). The law on the national park of Triglav was amended in May 2001. Amendments to the law on physical planning were adopted in September 2000, with the aim of sustaining environmental protection and preventing investment blockades. The Nature Protection Authority completed the first phase of the Slovenian Wetlands Inventory and a strategy on the Management of the bear population was adopted in February 2001.

As regards **industrial pollution control and risk management**, the decree on the emission of substances into the atmosphere from combustion plants was amended in October 2000. A regulation on the management of waste containing asbestos was also adopted in October 2000.

With regard to the Industrial Pollution Prevention and Control (IPPC) Directive, amendments to the Environmental Protection Act were adopted in March 2001 and to the Protection against natural disasters Act in June 2001. Several decrees on emissions were adopted in September 2000.

In the field of **chemicals**, a law on the implementation of the prior informed consent procedure was adopted in June 2001 regulating import and export of certain hazardous chemicals. A book of rules on conditions to be fulfilled by laboratories for testing samples of chemicals and chemicals' packaging was approved in November 2000. A book of rules for the work of the ethical committee on animal testing was also approved in September 2000. The National Chemicals Bureau was established as the competent authority to manage the harmonisation of legislation and to guide implementation of the new provisions in line with the Chemicals Act of 1999.

As regards **genetically modified organisms** (GMOs), a three-year project "Setting-up of the Bio-safety System in Slovenia" is being carried out. It covers not only the procedures for granting consents and permits for the use and placing on the market of GMOs, and for assessing risks to human health and the environment, but also public awareness and participation, and information systems.

As regards **noise**, rules on noise emission from household appliances were adopted in January 2001.

In the field of **radiation protection** (*see also chapter 14 - Energy*), no particular developments can be reported during the period covered by this Regular Report.

The administrative capacity in this area has been improved. The Environmental Agency of the Republic of Slovenia was established in April 2001. It has overall responsibility at the national level for the implementation of the *acquis* in the field of environment. Some existing institutions, namely the Nature Protection Authority, the Hydro-meteorological Institute, and the Administration for Geophysics have been absorbed into the Agency. It functions as the competent authority and has licensing and enforcement powers under environmental directives. Special training has been provided to adequately implement the legislative requirements of the environmental impact assessment legislation. The number of staff dealing with EU issues, in particular in the field of waste management, water quality and inspection, increased by nearly 50% in the last year.

Overall assessment

Alignment with the EC environmental *acquis* is well advanced in Slovenia. Slovenia's legislation is almost entirely aligned with the *acquis* in the fields of horizontal legislation, waste management, chemicals and noise, and good progress has been made in the fields of air quality and climate change, nature protection, water quality, and genetically modified organisms.

The main task concerning legislation for the period 2001-2002 is the adoption of four key acts (governing waters, the application of gene technology, nuclear safety and radiation protection, and the amendments to the Environmental Protection Act) as well as their implementing legislation. Adoption of the Water Act and related ministerial regulations to ensure the transposition of EC water directives is a priority. The level of implementation in the water quality

area is good, but further progress is still necessary. Only slight delays have occurred in the ambitious transposition schedule, save in the case of the Water Act.

With regard to the integration of the environment into other policies, under the National Environmental Action Programme the industry, transport, energy, agriculture and tourism sectors are obliged to integrate environmental considerations into the sectoral policies.

Slovenian legislation on environmental impact assessment is now almost in line with the *acquis*.

Several regulations for the implementation of the *acquis* on industrial pollution control and risk management have been adopted since the last Regular Report, but only limited progress has been made in the transposition of the requirements of the Large Combustion Plants' Directive. Only limited progress has also been made with regard to the Industrial Pollution Prevention and Control (IPPC) Directive. Completing transposition of both directives has been delayed until 2002. The transposition and implementation of the Seveso II Directive has begun and is foreseen to be completed in 2002.

Further progress on transposition in the air quality sector is needed. Limited progress has been achieved since the last Regular Report on implementation.

In the waste sector, nearly complete transposition of the *acquis* has been achieved with the exception of the packaging and packaging waste directive. Slovenia also has a well-developed waste management system in place. Although implementation of the waste framework requirements is well advanced, this is a sector in which particular efforts are needed.

The level of implementation of the *acquis* is rather high in the field of chemicals, however, the status of transposition remains at a relatively low level.

As for the radiation protection field, limited progress has been made to date on harmonisation with the *acquis*.

Slovenia should continue to integrate environmental protection requirements into the definition and implementation of all other sectoral policies with a view to promoting sustainable development.

As regards administrative capacity, most of the necessary institutions in the area of environment are in place, but the competent authorities for various directives remain to be identified. The overall administrative capacity has been steadily improved and the establishment of the Environmental Agency represents a breakthrough. However, the local capacity to implement EC environmental directives needs to be strengthened.

Chapter 23: Consumers and health protection

Some progress has been made in this area since the last Regular Report.

No major developments have taken place since the last Regular Report as far as **safety related measures** are concerned.

Regarding **non-safety related measures**, implementing legislation for the Consumer Credit Act was adopted in July 2001, setting the criteria to be met by a grantor of credit for obtaining

the authorisation for the supply of consumer credit service, conditions to be met by a credit intermediary, and the content of the label showing the fulfilment of conditions for supplying the consumer credit service.

As regards the **functioning of the market surveillance mechanism**, in 2000 Slovenia became a full member of the TRAPEX (Transitional Rapid Exchange of Information) System. The Office for Consumer Protection was slightly reinforced in terms of budget, and in terms of staffing through the recruitment of two new experts.

The activities of non-governmental consumer organisations were promoted in 2001 by calls for tenders relating to consumer advice, the publishing of a consumer magazine and support for the operations of consumer organisations.

Overall assessment

In the field of safety, legislative alignment is already rather advanced, although fine-tuning is still needed to ensure complete alignment. However, non-safety related measures have only been partially implemented in Slovenia and substantial efforts will be required in this area.

The Act on Consumer Protection still has to be thoroughly amended in order to implement the directives on misleading advertising, comparative advertising, liability for defective products, contracts negotiated away from business premises, unfair terms in consumer contracts, timeshare, distance contracts, injunctions and guarantees. The recent Consumer Credit Act requires fine-tuning. The directive on price indications has been largely implemented.

Concerning administrative capacity, further strengthening of the Office for Consumer Protection is needed, notably with respect to training, and the co-ordination and training of other administrative and judicial bodies involved in enforcement and market surveillance should be improved.

Slovenia has a strong consumer movement and the government is carrying out measures to foster the development of non-governmental consumer organisations. The register of consumer organisations currently includes 12 non-governmental consumer organisations which work to advise, inform and educate consumers. The Office for Consumer Protection operates a Council of experts as a consultative structure, which represents consumer interests and ensures the participation of consumers in the decision-making process. The government provides funding to consumer organisations, although its tendering procedure for support to consumer organisations, has contributed to the proliferation of several small consumer associations, which often lack a real programme and the sufficient back-up training.

In accordance with the National Consumer Protection Programme for the period from 2001 to 2005, legislation related to the granting of concessions to non-governmental consumer organisations will have to be adopted. Preparations also need to be completed for the establishment of an out-of-court consumer dispute settlement system for financial services.

Chapter 24: Co-operation in the field of justice and home affairs

Slovenia has made some progress since the last Regular Report on Justice and Home Affairs, both in terms of the harmonisation of legislation and strengthening of the administration.

Amendments to the Act on Personal **Data Protection** setting out the responsibilities of different institutions were adopted in June 2001. An Inspectorate for Personal Data Protection will be set up to supervise personal data protection while the independent supervision of implementation of the act will be exercised by a Personal Data Ombudsman.

Concerning **visa policy**, instructions on issuing of visas at border crossings, (including refusal of entry for foreign nationals), on issuing of visas on humanitarian grounds and on revoking a visas were introduced in January 2001. A list of countries whose citizens need airport transit visas when transiting through Slovenian airports was adopted in July 2001. New Slovenian passports were issued in March 2001 on the basis of the Law on passports for Slovenian citizens adopted last year. The introduction of the electronic information system (Vision) continued.

Since the last Regular Report, Slovenia has made some progress concerning control of **external borders**, but this area still remains a priority to be tackled. The Slovenian and Croatian Governments agreed in July 2001 on the demarcation of the outstanding parts of the sea and land border. Once the agreement is ratified by both Parliaments, Slovenia's last remaining border issue with its neighbours will have been settled. The border co-operation agreement with Croatia, which had been awaiting ratification since 1997, was ratified by Slovenia in July 2001.

In May 2001, the Government adopted a **Schengen** Action Plan identifying the needs for the period 2000 – 2005 for further recruitment of staff to ensure adequate control of the future EU external border, and for training and purchase of equipment.

Concerning **migration**, the Act on Employment of Third Country nationals entered into force in January 2001. Slovenia ratified the agreement with Romania on re-admission in March 2001.

Amendments to the **Asylum** Act concerning detention of asylum seekers suspected of deception and abusing procedures and facilitating the return of illegal immigrants to Hungary and Croatia were adopted in December 2000. Amendments to the act adopted in July 2001 aim at improving the efficiency of procedures for granting refugee status. They also regulate the distribution of asylum homes in various parts of the country, the granting of asylum for humanitarian reasons, as well as special protection. They also include a provision on the right of every asylum seeker to consult a refugee councillor. Rules concerning conditions and the procedure for the reception and accommodation of aliens in the Centre for Foreigners were adopted in October 2000. A new department was created in the Ministry of the Interior in September 2000 to deal with asylum applications. It has 13 staff.

The implementation of the reorganisation of the Ministry of Interior and the Police has continued on the basis of the legislation adopted last year. 363 new police officer candidates have been recruited in 2000. A Criminal Investigation Police Directorate (with a section for organised crime) and units for computer crime, criminal analysis and investigation support have been set up. Concerning **police co-operation**, the Co-operation agreement between Slovenia and Europol was signed on October 1, 2001. The Slovenian police have enhanced co-operation with police in the Member States, especially with Italy, in the areas of training, equipment and co-operation in state border control. Joint police patrols have been established to patrol the most vulnerable part of the Slovenian – Italian border since January 2001 in order to prevent illegal border crossings. Slovenia ratified an agreement with Romania in March 2001 concerning – among other things – co-operation in **fight against organised crime**.

Concerning the **fight against fraud and corruption**, Slovenia became a full member of the OECD Working Group on Combating Bribery of Public Officials in International Business Transactions in January 2001 and ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions in September 2001 (*see also Section B.1.1. - Democracy and the rule of law*).

A decision on the organisation of a Prohibited **Drugs** Information Unit in the Ministry of Health was issued in March 2001. The unit will be responsible for the co-ordinated collection of data and exchange of information nationally and internationally. It will also become the Reitox (European information network on drugs and drugs addiction) focal point.

A new law on **money laundering** has been adopted in September 2001. It extends the liability to legal persons and aims at improving the co-ordination of the relevant authorities in this area.

Regarding **customs co-operation**, Slovenia has ratified agreements with FYROM and Norway on mutual assistance in customs demands.

Concerning **judicial co-operation in criminal and civil matters**, Slovenia has ratified the European Convention on Mutual Legal Assistance in Criminal Matters and the additional protocol to the same convention in May 2001. A law allowing Slovenia to improve its co-operation with the UN International Criminal Tribunal for the former Yugoslavia was adopted in December 2000.

Overall assessment

The overall situation and level of alignment in the Justice and Home Affairs area is good although establishing adequate border controls especially at the future EU external border as well as implementation of the Asylum Act will require a further sustained effort.

The legislative framework for **data protection** is largely in place, however, the Classified Data Act still remains to be adopted. The main task remains the establishment of the new institutions foreseen for supervision in this area. Slovenia ratified the Council of Europe Convention on the protection of Individuals with regard to Automatic Processing of Personal Data in 1994.

Slovenian **visa policy** is close to alignment. The only outstanding question is the visa policy on Romania. However, the Government decided last year that Slovenia will follow the visa policy of the EU on Romania.

The Government continues to implement measures to improve **border control**, especially at the green border with Croatia. The activities are co-ordinated by a group set up by the Government last year. The Schengen Action Plan adopted by the Government in May provides the framework for measures in this area. Enhanced border control is especially important, as Slovenia has increasingly become a transit country for illegal immigrants, mainly over the borders with Croatia and Hungary. About 36,000 illegal border crossings were reported in 2000 – this represents a 91% increase from year 2000. Substantial Community assistance is being provided for border control. Slovenia has a simplified border crossing regime with Austria and Italy and agreements with all neighbouring countries (Austria, Croatia, Italy, Hungary) concerning the right to enter the territory of Slovenia with identity cards. An

agreement with Austria on border control co-operation remains to be ratified by both parties and similar agreements with Hungary and Italy are being prepared.

As far as **migration** is concerned, the Law on Foreigners covers the entry and residence of foreign nationals in Slovenia. Part of the implementing legislation has been adopted – but some legislation concerning issuing of visas and residence permits still remains to be adopted. As Slovenia is increasingly becoming a transit country for illegal immigrants, including trafficking of human beings, it should increase its capacity to tackle trafficking and provide suitable training for the relevant authorities. Slovenia has readmission agreements with 23 countries including Austria, Belgium, Bulgaria, Canada, Croatia, Denmark, Estonia, France, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Macedonia, the Netherlands, Poland, Romania, Slovakia and Switzerland.

The basic legislation on immigration and **asylum** is in place since 1999. Implementing legislation for the Asylum Act still remains to be adopted from the point of view of the rights of asylum seekers and the procedure for handling asylum applications. The creation of an asylum home separate from the deportation centre for illegal immigrants is an urgent priority. Both are currently located in the same building, the general conditions in which are a source of concern due to over-crowding. The centre houses up to 600 persons although its capacity is only 150-300. Community assistance will be provided to set up the home and to upgrade the centres for illegal immigrants in different parts of the country. The number of asylum seekers is increasing rapidly (800 in 1999 and 13,000 in 2000). Partly as a result of this, there is a large backlog of pending asylum applications. At the end of 2000, there were over 8,000 pending applications and only 57 decisions were taken. By April 2001, only 14 applicants had been granted asylum. Many of the asylum seekers leave the country after they have filed an application. Amendments to the asylum law submitted to the Parliament aim at improving the efficiency of the procedure. The National Action Plan on Asylum provides the framework for further measures in this area.

The legislative framework in the area of **fraud and corruption** is in place. The reorganisation of the Slovenian Police, which started last year, is intended among other things to improve the capacity of the police in this area. The police has specialised units for fraud and corruption. Adequate training on financial and economic crime should be provided to ensure sufficient investigation capacities. Slovenia should continue to improve co-ordination between the different law enforcement bodies to fight organised crime. Slovenia's Penal Code contains legal provisions which, to a great extent, adapt it for Slovenia's eventual accession to the Convention on the protection of the EC's financial interests. The Council of Europe Civil Law Convention on Corruption remains to be ratified.

The legislative basis for prevention of **money laundering** is in place. The National Office for Money Laundering Prevention continues to act as the Slovenian Financial Intelligence Unit.

The legal framework in the area of illicit **drugs** has largely been put in place. Further strengthening of the institutions in this area would enable the authorities to tackle drug problems more effectively. Efficient control of drug transit presupposes strengthened border control especially at the borders with Croatia and Hungary. Government statistics on drug-related crime indicate a considerable increase in the 1990's. Slovenia is also increasingly becoming a drug consumer in addition to being a transit country on the Balkan route and it is important that the authorities tackle also domestic drug consumption adequately.

Concerning **customs co-operation**, Slovenia's co-operation with OLAF has been effective.

Regarding **international judicial co-operation**, Slovenia has extradition agreements with Austria, Croatia, France, FYROM, Germany, Italy, Romania and Turkey.

All the **human rights** legal instruments, which are part of the Justice and Home Affairs *acquis*, have been ratified by Slovenia.

Chapter 25: Customs union

Good progress has been made in this area since the last Regular Report.

In the field of the **EC Customs Code and its implementing provisions**, in December 2000 and April 2001 Slovenia adopted three decrees based on the Law on Customs Tariffs, concerning tariff quotas and suspension of autonomous duties. Regarding tariff quotas, the "first-come, first served" system has been introduced. The suspension of autonomous duties is in line with the *acquis*.

Regarding the **customs *acquis* outside the Customs Code**, Slovenia adopted the law on Customs Measures Relating to Infringement of Intellectual Property Rights in April 2001. The Act stipulates new tasks for the Customs Service in preventing counterfeit and pirated goods as well as goods bearing counterfeit trademarks or geographical indications from entering or leaving the customs territory of Slovenia. The application of the act is planned for November 2001.

Regarding international Agreements and Conventions, Slovenia acceded to the Convention on Temporary Admission (Istanbul Convention) in November 2000.

Some progress can be noted in connection with the **administrative and operative capacity** to implement the *acquis*. The administration has begun to introduce risk analysis methods and to provide IT support for processing of customs declarations. A free telephone hotline was set up for confidential information on smuggling and customs fraud. To simplify customs procedures, some activities were undertaken in the areas of warehouse-logistics centres, paperless procedures and declaration procedures. As a result, 94% of all customs declarations will be lodged in electronic form by the end of 2001. Language and computer training, as well as training on the application of the new rules on the origin of goods and on the pan-European cumulation system, has been provided.

Overall assessment

Slovenia has reached a good level of alignment in the customs area. However, further work is still necessary in a number of areas such as free zones, customs warehousing, duty relief, inward processing, Binding Tariff Information and cultural goods.

The adoption of the Law on Customs Tariffs in July 2000, and the amendments to the Customs Service Act, adopted 1999, represented substantial progress in Slovenia's alignment with the EC *acquis*. Further alignment was achieved by the implementation of a system of tariff quotas and suspensions, which will enable Slovenia to be integrated with the relevant EC customs procedures by accession.

The administrative and operational capacity to implement the *acquis* has reached a partially satisfactory standard as concerns training of staff and material equipment. A Code of Ethics is in place. However, Slovenia should continue with the training activities and the restructuring of its administration in order to be able to cope with the new tasks following accession. Infrastructure at the border with Croatia should be developed further. Particular attention should be paid to the development of IT systems, especially to further development of risk-analysis, taking into account the fact that flawlessly functioning EC-compatible IT systems should be in place at least one year before accession to the EU in order to guarantee interconnectivity with the EC customs computerized systems.

Chapter 26: External relations

Slovenia has made substantial progress in this area since the previous Regular Report.

As regards the **common commercial policy**, upon accession Slovenia will be required to align its tariffs with those of the EC. Slovenia's applied tariffs currently average 9% on all products, 13.7% on agricultural products, 5.9% on fishery products and 8.1% on industrial products. By comparison the EC tariffs²⁴ currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

Slovenia has prepared - in consultation with the Commission - a Programme for the third phase of integration in the Agreement on Textile and Clothing (ATC) and notified it to the World Trade Organisation (WTO). Several regular and periodic notifications, which were reviewed by various WTO committees, were prepared in 2000 aiming at an effective implementation of WTO agreements. Slovenia has applied the Information Technology Agreement (ITA) on a provisional basis since 1 January 2001 although it still remains to be ratified and is an observer to the WTO plurilateral agreement on Government Procurement.

Slovenia is actively participating in negotiations on further liberalisation of trade in services and agricultural products under the WTO. In September 2000 Slovenia adopted a Decree on Safeguard Measures based on the WTO Agreement on Safeguards provisions.

Concerning **bilateral agreements with third countries**, in the same period, an agreement on co-operation in trade and economy was signed with the Federal Republic of Yugoslavia (FRY) in March 2001, while agreements with Brazil, Egypt, Indonesia, Korea and Thailand came into force.

Slovenia has contributed significantly to the development of trade relations among the former FRY republics with a view to enhancing stability in the region. Slovenia signed a memorandum with Montenegro in March 2001 aiming at strengthening economic co-operation.

Slovenia and Bosnia-Herzegovina signed a free trade agreement in September 2001. Slovenia and the Federal Republic of Yugoslavia announced in March 2001 that they plan to negotiate a free trade agreement.

²⁴ WTO bound tariffs after full implementation of all concessions including – where possible – estimated add valorem equivalents of specific and compound tariffs.

Slovenia's **development policy** and **humanitarian aid** are mainly focussed on South Eastern Europe. The assistance funds made available by Slovenia in 2000 and 2001 were distributed as follows: Bosnia and Herzegovina 40%, Montenegro 25%, Macedonia 20%, Kosovo 10% and Albania 5%.

Overall assessment

Slovenia's trade trends and policy are increasingly integrated with those of the EU. Slovenia continues to liberalise its trade policy by implementing the Europe Agreement, CEFTA and bilateral agreements.

Slovenia has signed free trade agreements with EFTA, CEFTA, Croatia, Estonia, Latvia, Lithuania, FYROM, Israel, Turkey and Bosnia-Herzegovina. It is also a member of CEFTA. Any international agreement which is incompatible with the obligations of membership will have to be re-negotiated or renounced prior to accession. Slovenia should continue to keep the EU fully informed about negotiations aimed at the conclusion of any new free trade agreements with a third country.

Slovenia has signed bilateral agreements on the protection and promotion of foreign investment with all EU Member States with the exception of Ireland.

Slovenia is actively involved in the preparations for the launching of a new Round of Multilateral Trade Negotiations within the WTO and has been steadily supportive of EU policies and positions in this framework. However, by the time of accession Slovenia will need to have joined the WTO plurilateral agreements on Government Procurement and Civil Aircraft. Further co-ordination is needed to ensure the alignment of Slovenia's GATS commitments with the EC's commitments and most favoured nation exemptions.

Further harmonisation in the field of alignment to the EC Dual Use goods legislation is needed.

As far as export credits are concerned, Slovenia has made progress in its alignment to the OECD Arrangement. With regards to medium and long term export credits, some further efforts are necessary.

Approximation and harmonisation with the *acquis* is the responsibility of the Department for International Economic Relations, based within the Ministry of Economy, which co-ordinates activities among ministries and relations with international organisations and associations. An interministerial working group for co-ordination in WTO matters, headed by the Ministry of Economy, acts as a co-ordinator between the ministries with regard to WTO matters. The administrative infrastructure which needs to be in place as regards customs services is addressed under *chapter 25 – Customs union*. The Ministry of Economy is currently in charge of assistance matters but a central authority responsible for development policy remains to be appointed. For the purpose of Slovenia's future financial contribution to the European Development Fund, Slovenia's management of its national budget organisation and management of flow of funds to the EC budget is addressed under *chapter 29 – Financial and budgetary provisions*.

Chapter 27: Common foreign and security policy

Since the previous Regular Report, Slovenia has continued to align its foreign policy with that of the European Union.

The regular **political dialogue** established by the Europe Agreement is proceeding smoothly. Slovenia continues to participate actively in the framework of the Common Foreign and Security Policy (CFSP), including meetings at the level of Political Directors, European Correspondents and Working Groups.

Slovenia has shown a keen interest in the development of the European Security and Defence Policy (ESDP) as part of the CFSP and has actively participated in the exchanges in this context with the EU, in EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU).

As regards **alignment with EU statements and declarations**, Slovenia has regularly aligned its positions with those of the Union and, when invited to do so, has associated itself with the Union's **statements, joint actions and common positions**. Since October 2000, it has associated itself with eight EU Common Positions, including three on the Federal Republic of Yugoslavia

Slovenia played an active role in the first capabilities Commitment Conference in November 2000 and had consultations in March 2001 with the EU on its participation in European Security and Defence Policy missions. It has pledged forces to participate in EU Rapid Intervention Force missions.

A Law on Sanctions was adopted in April 2001 establishing the basis for Slovenia's participation, as a member of international organisations, in **international sanctions and restrictive measures**.

The new Foreign Affairs Act adopted in May 2001 sets out a clearer division of powers between the executive and the legislature. The Government is authorised to ratify certain international agreements, which concern matters under its competence. However, internal instructions to the departments concerned as regards these provisions of the law have not yet been issued.

Slovenia's relations with its neighbours remain good and several positive developments can be reported. The Slovenian and Croatian governments reached agreement on the demarcation of the remaining parts of the land and sea border in July 2001 as well as on ownership of the Krško nuclear power plant (situated in Slovenia but jointly owned by the two countries). The agreement still remains to be ratified by both Parliaments. The debt of the Slovenian Ljubljanska Banka to its former account holders at the bank's former branches in the other successor states of the former Socialist Federal Republic of Yugoslavia (SFRY) remains to be settled. The Slovenian Parliament ratified the agreement on border transport and co-operation with Croatia in July 2001. Slovenia and the Federal Republic of Yugoslavia established diplomatic relations in December 2000. Slovenia engages actively in quadrilateral co-operation with Italy, Hungary and Croatia, and participates in the Central European Initiative.

An umbrella agreement on the succession of the former Socialist Federal Republic of Yugoslavia was signed by the successor states in May 2001. The agreement divides up state

property including diplomatic and consular properties, foreign reserves, and financial assets and liabilities. An agreement on archives was also reached, although some issues need to be clarified further.

In accordance with its Strategy of the Engagement in the Economic Reconstruction of South Eastern Europe, Slovenia has participated in the Stability Pact for South Eastern Europe as an active provider of humanitarian aid, technical assistance and co-financing of bilateral projects. It participated in the regional working table and in three other working tables. Slovenia and FYROM signed a memorandum on non-refundable investment aid in February 2001 as part of the co-operation under the Stability Pact. Slovenia and Bosnia-Herzegovina signed an agreement on technical assistance in February 2001.

Overall assessment

Slovenia's alignment with the *acquis* in the CFSP area is overall satisfactory. Slovenia should maintain its foreign policy orientation in line with that of the Union as the *acquis* in the field of foreign policy and security develops further.

Slovenia's relations with its neighbours remain good. The agreements reached between the Croatian and Slovenian Governments on the Krško nuclear power plant as well as on the demarcation of the remaining parts of the land and sea border have been a positive development. However, they remain to be ratified by both parliaments. The signature of the agreement with Austria on co-operation in culture, education and science is a further welcome development. Slovenia's role and the special contribution it can make in South Eastern Europe have been reconfirmed in the course of the last year.

Slovenia has aligned itself to the content and the principles of the EU Code of Conduct on Arms Exports; these are reflected in the Act on the Export of Dual Use Goods.

Slovenia has a well staffed and functioning Ministry of Foreign Affairs. A special unit for CFSP and ESDP headed by a political director for EU affairs is in place in the Ministry. The Ministry is connected to the Associated Correspondents' Network information system through which the EU communicates within the CFSP with the associate partners. Slovenia is committed to building up adequate IT and secure communications channels needed for participation in the EU exchange system for classified CFSP information.

Chapter 28: Financial control

Some progress has been made in the field of financial control during the period covered by this Regular Report.

In the area of **public internal financial control**, at the beginning of 2001 Slovenia started to establish internal audit units in the line ministries and to produce the appropriate internal audit manuals. 11 audit units had been established by July 2001. Furthermore, the Budget Supervisory Service (BSS) was reorganised into the following departments: Audit and Certification Department, Inspection and Supervision Department and Department for Internal Audit, Quality Control and Training. Five new employees were recruited, four of them in the Audit and Certification Department and one in the Inspection Department.

Regarding **external audit**, the Act on Court of Audit (COA) was adopted in January 2001. The number of the Members of the Court of Audit has been reduced from nine to three, the authority of the President has been increased and detail auditing procedures, responsibilities and conditions have been stipulated in greater detail. The parliamentary procedures for follow up of the COA audit reports have been strengthened by giving more attention to the conclusions of the audits.

No particular developments are to be reported concerning **control of structural action expenditure** and **protection of financial interests of the European Communities**.

Overall assessment

Overall, the situation concerning external financial control is good in Slovenia while Public Internal Financial Control should be improved.

The Public Finance Act adopted in September 1999, and the enacting of the Rulebook on Joint Criteria for the Organisation and Procedures of Financial Control in February 2000, provide a basis for further implementation of the new internal financial control systems. However, this legislation needs to be amended and brought into line with internationally accepted standards and terminology. An analysis of the present status of control and audit systems in the public sector, preferably through a Public Internal Financial Control Policy Paper, should be carried out. The appointment of internal auditors in some line ministries is an important step towards sound financial management, but more efforts are needed to harmonise the functions and positions of internal auditors. Furthermore, not all budgetary chapters are presently covered by internal audit. The functional independence of the internal auditors also needs to be strengthened in a harmonised way.

The right of Budget Supervisory Service financial inspectors to stop financial transactions ex ante in line ministries is not in step with the principle of managerial accountability. Moreover, this function of ex ante control, as exercised by the BSS inspectors, violates the principle of separation between managerial responsibilities and the central function of the BSS, which is to harmonise the methodology of financial management and control systems as well as of internal audit systems.

Finally, the administrative capacity of the Department for Internal Audit, Quality Control and Training within the Budget Supervisory Service should be strengthened by recruitment of new staff. This would improve the centralised harmonisation of financial management and control and internal audit methodologies, including the development of manuals and audit trails.

External audit is largely satisfactory in Slovenia. The new Act has further strengthened the financial independence of the Court of Audit, stipulating that its budget is to be approved by the Parliament. The Court now fully covers the use of EC- funds, up to the final beneficiaries, and the judicial powers of the Court have been abolished. Finally, stipulations have been introduced for suitable parliamentary discussions of the findings and recommendations of the Court's reports as well as of the follow-up procedures.

In the area of structural action expenditure, preparation for the Extended Decentralised Implementation System (EDIS) is a priority. A comprehensive description of the systems applied for procurement, contracting and payments (audit trail) is required. With regard to

control and audit of EC pre-accession funding, the national accreditation of the SAPARD Agency needs to be approved by the Commission.

The unit for the fight against crime and corruption established at the Ministry of Interior in April 2000 has overall responsibility for co-ordination concerning protection of EC financial interests. Slovenia should officially nominate, as soon as possible, in consultation with OLAF, an institution or administrative structure with the appropriate competencies to co-ordinate investigations into cases of fraud and irregularities affecting the EC's financial interests and to act as a single contact point for OLAF.

Chapter 29: Financial and budgetary provisions

Slovenia has made some progress in this area since the last Regular Report.

Concerning the **national budget and EC co-financed measures**, the framework budgetary legislation has been improved so as to guarantee the transparency and efficiency of financial flows to and from the EC budget. The Act on implementing the 2001 budget was adopted in April 2001 and includes a number of general budget implementation provisions. A legal framework for budgetary management comparable to that in the EU member States has also been set up.

Regarding the medium term budget expenditure, the budget documents for 2001 (budgetary memorandum and national budget) have been prepared in accordance with the new framework legislation. In July 2001 the Government adopted the budget memorandum, macro-fiscal scenario and budgetary outlines for the period 2002-2005, which aim to introduce multi-annual budgeting for the years 2002-2003.

Regarding the **own resources system**, efforts for estimating GNP in accordance with European System of Accounts (ESA-95) standards are ongoing. The ESA-95 standards have been translated into Slovene, the quality of annual economic accounts in current prices has improved and institutional sectorisation of business register units in compliance with ESA-95 has been completed.

Administrative capacity has been improved, notably by training personnel involved in EU-related fiscal and customs administration. Furthermore, Slovenia has established a co-ordination group for monitoring pre-accession assistance programmes and jointly financed programmes within the structural and cohesion funds. In order to improve co-ordination of financial relations with the EC, a special department was created within the Budget Preparation and Management Division of the Ministry of Finance in June 2001.

Overall assessment

While Slovenia's budgetary rules are broadly satisfactory, further efforts are still required to bring them into line with those standards generally applicable in the Community.

The legal framework for budgetary management as well as for the transparency and efficiency of financial flows to and from the EC budget is in place. Regarding the medium term budget expenditure, all programming and monitoring mechanisms, including co-financing, have been put in place. The programme-oriented structure of the 2001 budget is a positive step. The Ministry

of Finance has started a reform of budgetary procedures and public expenditure management in order to make further improvements. The reform is concentrated on central financial control and management of state budgetary expenditures as well as familiarisation with budgetary requirements related to Slovenia's accession to the EU.

The procedures for selecting, monitoring and evaluating public investments and expenditure programmes need to be strengthened in order to improve the process of allocation of resources.

Overall preparations for application of the *acquis* on own resources are progressing well. The co-ordinating role of the Ministry of Finance in connection with the provision of data on the criteria for determining the level of Slovenia's contribution to the EC budget should also be strengthened. Special provisions for agricultural duties still need to be completed, and quality and methodology improvements related to the ESA-95 standards are still to be implemented.

With regard to the control of future EC Own Resources, Slovenia should continue its efforts to set up effective instruments to combat VAT and customs duty fraud so that the financial interests of the EC can be protected.

In addition to the need for central co-ordination for the proper collection, monitoring and payment of funds to and from the EC budget, administrative capacity should be strengthened in the context of the relevant policy areas described elsewhere in this report, such as Financial Control, Agriculture, Customs, Taxation and Regional Policy.

3.2. Translation of the *acquis* into the national languages

Applicant countries are required to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. Primary and secondary legislation alone represents a considerable volume of acts, roughly estimated at 60,000-70,000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of Central and Eastern Europe.

The Translation Unit of the Government Office for European Affairs is responsible for this task and currently has 38 staff, while the judicial revision is carried out by the Legal Office. The government is also providing funding for translations commissioned from freelance translators.

Slovenia has continued to make progress on translation of the *acquis* into Slovene. All primary legislation has been translated. According to the government, about 29 000 pages of the Official Journal have been translated. However, only about 1 800 pages of translated texts have undergone legal revision. Without prejudice to the outcome of the accession negotiations, urgent additional efforts are required in this area.

Due attention must also be given to the training of conference interpreters.

3.3. General evaluation²⁵

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

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

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

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

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

Slovenia has made very little progress since the last Regular Report in preparing for accession in the area of *regional policy*. The preparations for implementation of the structural funds should be speeded up as a priority. Progress has also been limited in the reporting period in the area of

²⁵ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

employment and social affairs where adoption of the Employment Relations act has been delayed further.

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

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

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

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

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

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

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

C. Conclusion²⁶

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

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

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

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

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

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

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

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

²⁶ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

instead of maintaining external competitiveness. The ongoing financial sector reform will also provide a more robust environment for completing the liberalisation of capital movements.

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Accession Partnership and National Programmes for the Adoption of the *Acquis*: Global assessment

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 Regular Report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages to deal with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in italics.²⁷

Short-term priorities

Economic criteria: Progress in *enterprise restructuring* has been made in some sectors, restructuring programmes were adopted for the textile and footwear sectors in December 1999. The Government has adopted a *steel restructuring programme*, which is considered to be in line with Protocol 2 of the Europe Agreement. While some steps have been taken to *increase foreign investment*, such as the adoption of a government plan for this purpose, these will not become fully effective until the economy is further liberalised. The Government has also developed a programme to *reduce bureaucracy* – however, its implementation should be improved. The Government has introduced some measures to promote SMEs, but the main obstacle to further development of the sector is still access to finance. The *privatisation process* has continued and started in the banking sector but only limited progress has been made in the insurance sector. *Restructuring of public finances* has continued, and reform of the *pension system* started in 1999. The implementation of *bankruptcy procedures* remains slow and the number of bankruptcies has been low. **Therefore, the priorities in this area have been almost completely met .**

Internal Market: Slovenia has made progress in alignment in the area of *public procurement* through the adoption in September 1999 of a new act on the review of public procurement procedures, and in April 2000 of a new act on public procurement. Slovenia has adopted the important new law on *industrial property*, but has not yet introduced a *supplementary protection certificate (SPC)*. Significant progress has been made in strengthening the

²⁷ For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership, please refer to Council Decision 1999/859/EC, OJ L 335 of 28/12/99.

legislative framework for *border control*, in particular with the adoption of an act on border enforcement, which covers both the fight against piracy and against *counterfeiting*. However, border control in general should be strengthened.

In *company law*, Slovenia has progressed in meeting the priority as the *requirements on the use of language* have been reduced in scope by the Amendment to the Commercial Companies Act. The implementation since 01.01.2000 of the Accountancy Act has also been a step forward.

Slovenia has established the legal framework for an *independent supervisory authority for data protection*, in line with the requirements of the directive.

Concerning *free movement of goods*, Slovenia has continued the implementation of the framework legislation for *New Approach directives* related to recreational craft, legal metrology, pre-packaging, machinery, ATEX low voltage and EMC, medical devices, gas appliances, construction products, R&TTE as well as for the *acquis* on textiles and footwear, glass, foodstuffs, chemicals, pharmaceuticals, cosmetics and motor vehicles. All steps for the restructuring of *SMIS* have now been taken. *The Slovenian Accreditation* body and the *Slovenian Standardisation Institute*, effectively took over the accreditation functions and the standardisation functions formerly carried out by *SMIS*. The other functions have also effectively been transferred.

New laws have been adopted to align legislation on *foreign direct investment* in the transport, telecommunications and media sectors. However, alignment in the *financial sector* remains to be completed.

In the area of *competition*, the priority concerning *anti-trust legislation* has been met with the implementation of the new act and the enactment of the related secondary legislation. The *competition office* was slightly reinforced in 2000. Regarding *State aid*, progress has been made through the adoption of a framework Act on State Aid Control in December 1999 and the issuing of secondary legislation. The State aid control section that provides support to the *State aid monitoring authority* received additional staff. Annual *State aid reports* have been submitted and the quality of the inventory has been improved. A regional aid map has been approved by the Government.

The *Telecommunication Act* has been adopted in April 2001 and the Agency for Telecommunications and Broadcasting was established in July 2001. The new Mass Media Law is intended to complete alignment in the area of *audio-visual legislation*.

Concerning *taxation*, the legislation for closure of the *Duty Free shops* at land borders has been adopted and the shops have been transformed into normal retail shops. Slovenia is following the *Code of Conduct for business taxation* in new tax measures on the basis of a case-by-case analysis and in co-operation with the EU. **Therefore, the priorities in this area have been largely met.**

Agriculture: *Alignment of the veterinary and phytosanitary legislation* is still under way. Substantial progress has been made in the veterinary field. Especially with the adoption of the new Veterinary Practise Act, and in the phytosanitary field, in particular with the adoption of the Plant Health Act and the Plant Protection Act. Progress has also been made in the

establishment of one of the three main border inspection posts at the border with Croatia. **Therefore, this priority has been largely met.**

Transport: With the adoption of the Maritime Code and of other relevant legislation, Slovenia has **met this priority.**

Environment: The adoption of the *Law on Water* has been delayed, in order to take into account the new EC Framework Directive and is scheduled for this year. The main *implementation strategies for environmental approximation* were outlined in the National Environmental Action Programme (NEAP) in 1999. The framework for *financing investments* was also laid down by the NEAP of 1999. Environmental expenditure has been increased to over 2% of the GDP. On *environmental impact assessment* progress has been made but alignment it is not complete yet. **Therefore, the priorities in this area have been almost completely met.**

Employment and Social Affairs: The active participation of the *social partners* in the legislative process shows the willingness of the public authorities to take account of the *social dialogue* but work remains to be done for this dialogue to be effective at local and regional levels and in specific sectors such as public enterprises. Slovenia successfully carried out with the Commission a *Joint Employment Policy Review*, and the “Joint Assessment of Employment Policy Priorities” was signed by both sides in July 2000. The Government also adopted a document on “Strategic development goals for the labour market up to 2006, employment policy and its programme of fulfilment” which allows it to meet the commitment to preparing a national employment strategy. **Therefore, these priorities can be considered to have been met.**

Justice and Home Affairs: Implementation of the *laws on Foreigners and Asylum* has started but some implementing legislation is still missing. Slovenia has ratified the Council of Europe Criminal Law Convention on *Corruption*, the European Convention on *Laundering, Search, Seizure and Confiscation of the Proceeds from Crime* and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. **The priorities in this area have been largely met.**

Reinforcement of administrative and judicial capacity, including management and control of EC funds: Public administration reform has progressed but the Civil Service Law still remains to be adopted.

Concerning SAPARD, the priority concerning the *Rural Development Plan* has been met and the Plan was adopted by the Commission in October 2000. Slovenia has adopted a *Preliminary National Development Plan* in September 1999 as an intermediate step towards the development of a comprehensive and detailed National Development Plan. Slovenia has also presented ISPA strategies concerning transport and environment to the Commission. Steps have been taken to establish the framework to manage and programme ISPA and SAPARD but work still remains to be completed in this area. The *SAPARD paying Agency* has been accredited by the relevant Slovene authorities in October 2000. The accreditation will need to be approved by the Commission. The legislative framework for internal and external financial control has been established although some fine-tuning remains to be done. The legislative basis for establishment of internal audit/control units has been set up but the implementation remains

to be completed. Slovenia has started preparations for setting-up of an unified cadastral system. Computerisation of land registration has started and is foreseen to be finalised by 2004.

Therefore, these priorities continue to have been partially met.

Medium-term priorities

Political criteria: Slovenia **has fulfilled the priority** concerning resolution of outstanding border issues with Croatia.

Economic criteria: Some progress has been made in *restructuring and commercialisation of state owned utilities*, however, the process remains to be completed. Reform of the *capital markets* remains to be completed. Slovenia has introduced measures to improve *fiscal surveillance* and external financial control can be considered sufficient. **Therefore, this priority has been partially met.**

Internal Market: The 10% price preference for domestic bidders in *public procurement* was eliminated by the new act on public procurement. Alignment on *intellectual and industrial property rights* is close to completion. Concerning *free movement of goods*, all framework sectoral legislation has been adopted but some regulations still remain to be adopted. The implementing structures have been identified but these as well as market surveillance need further strengthening. Concerning free movement of capital, some restrictions still remain on *short-term transactions* but there are no restrictions on acquisition of *real estate* by foreign companies. Liberalisation of capital flows has progressed according to the timetable set by the government. Alignment of mutual *recognition of diplomas* still remains to be completed. Supervision of *financial services* has been significantly improved. In *competition*, the authorities received some reinforcement and the procedures were improved by new secondary legislation, which improve co-ordination in the administration. This priority was thus partially met, except for transparency of existing aid which still has to be improved as far as the activities of the Slovenian Development Corporation are concerned. Alignment of *the VAT and excise duty regimes* remains to be completed. Slovenia has committed to follow the code of conduct for business taxation. Slovenia has continued alignment in the area of *consumer protection* with the transposition of the Directive on products with misleading appearance, and with progress in the areas of travel, price indications and consumer credit. On *customs*, alignment concerning free zones remains to be completed. Border control and the customs administration are being strengthened, including by computerisation. Fight against fraud and corruption has been continued. **Therefore, this priority has been partially met.**

Agriculture: Substantial progress has been made on reinforcing *CAP management mechanisms and administrative structures* with the adoption of several implementing decrees on market organisations based on the Agriculture Act as well as the establishment of market information systems in several areas. The Agency for Agricultural Markets and Rural Development (AAMRD) is continuing its preparations for setting up the management mechanisms and the administrative capacity necessary for the implementation of the Common Agricultural Policy. Alignment of legislation in the *veterinary and phytosanitary sector* including on animal identification, quality control, animal waste treatment, modernisation of dairy and meat plants residue and zoonosis control programmes has continued. Some progress has been made in setting up the *inspection systems* at future external borders, but this work

remains to be completed. Slovenia has progressed in upgrading of *food processing plants and restructuring of the agri-food sector*. **Therefore, this priority has been partially met.**

Fisheries: This priority has been partly implemented, since the staff dealing with *fisheries* in the Ministry of Agriculture, Forestry and Food has been reinforced and since preparatory steps have been taken for the establishment of an inter-ministerial monitoring centre. In particular, decisions have been taken on the location of the centre's various facilities and a legal basis for monitoring is provided for in the Maritime Code. **This priority has, therefore, been partially met.**

Energy: Slovenia continued to ensure high levels of *nuclear safety*. The Krško Nuclear Power Plant Modernisation Programme has been successfully implemented in the period 1998-2000. In November 2000 Slovenia received the PHARE final report on geophysical research in the surroundings of Krško which stated that no major seismogenic features intersect the site of the nuclear power plant. It also recommended the setting-up of a high-quality station in the area such that the detection of small tremors and local earthquakes become possible. Reinforcement of the *regulatory structures for nuclear safety* has continued and the Nuclear Safety Administration has been allocated additional staff. Slovenia has continued to improve its *energy efficiency* through awareness-raising, informative and educational activities as well as financial incentives and income tax relieves. Progress has continued on the formation of compulsory *oil stocks* in compliance with the governmental plan. Slovenia has continued to prepare for the internal energy market and opened its *internal electricity market* partially this year. **This priority has been largely met.**

Transport: Progress in *alignment* with the *acquis* has been substantial with the adoption of the new Road Transport Act, the Aviation Act and the Maritime Code. **This priority has been largely met.**

Employment and Social Affairs: The transposition of European Union legislation in the field of occupational health and safety, equal treatment of women and men, and health continues. Alignment on labour law remains to be achieved. The related administrative structures have been strengthened. **Therefore, this priority has been partially met.**

Economic and social cohesion: Slovenia has been gradually establishing the required instruments for *economic and social cohesion*, but there is still no clear concept for the division of responsibilities between Ministries.. A National Agency for Regional Development has been established and the National Development Plan is foreseen to be completed in November 2001. Various decrees to implement the law on balanced *regional development* have been adopted. Slovenia still needs to agree with the Commission a territorial organisation which will allow for the effective implementation of Structural Funds. The tasks of the bodies involved in the management of Structural Funds still need to be clearly defined and the administrative capacity to be strengthened, in particular as regards recruitment and training. Inter-ministerial co-ordination will have to be ensured. Slovenia also needs to establish financial management, control and internal audit structures to fulfil the specific requirements of the Structural Funds regulations and to set up an appropriate monitoring and evaluation system. Some progress has been made in developing the *budgetary system* with the entry into force of the Law on Public Finance and the Accountancy Act which will contribute to sound management of Community assistance. **Therefore, this priority has been partially met.**

Environment: Slovenia has made steady progress in *implementing legislation* in the fields of waste management, air pollution control, industrial pollution, risk management, chemicals and genetically modified organisms. *Administrative capacity* in this area has also been improved by establishment of the Environmental Agency. Slovenia also has continued to *integrate environmental principles into other policies* as required by the National Environmental Action Programme. **This priority has been largely met.**

JHA: Progress has been achieved in improving the administrative capacity of *law enforcement bodies* through recruitment of new staff, through training and improved equipment. Slovenia has also continued efforts to fight *organised crime, trafficking in women and children, drug trafficking and corruption*. Co-ordination between law enforcement bodies can still be improved. Alignment of *visa legislation and practice* is advanced. **This priority has been largely met.**

Reinforcement of administrative and judicial capacity, including management of EC funds: Measures have been introduced to improve the operation of the *judicial system*, including by alternative instruments for settlement of civil disputes and the backlog of court cases has been reduced as a result. The law on *public agencies* remains to be adopted. *Training in Community law* is being provided in the judicial training centre. Strengthening of *public financial control* functions has started – but the process is still underway. The *statistical* capacities are being gradually strengthened. **This priority has been largely met.**

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

The Slovenian Government drew up in 1999 a medium term National Programme for Adoption of the *Acquis* (NPAA) covering years 1999 to 2002. The Parliament adopted it giving instructions to the Government on its implementation. This programme was presented to the Commission in May 1999 and assessed in the Regular Report 1999. Amendments to the programme were adopted by the Government in April 2000. This update of the NPAA was presented to the Commission in May 2000 and assessed in last year's Regular Report.

The Government adopted further amendments to the NPAA in May 2001 and submitted the revised document to the Commission in the same month. It reflects *inter alia* the evolution of the *acquis* which occurred in year 2000, the comments made by the Commission on the previous programme and the budgetary funds foreseen in this year's budget.

As the document represents a second amendment that should be read in conjunction with the original document as well as to some extent the first amendment, it is somewhat difficult to get an overview on the various areas.

The amendments follow the same structure as the original document with sections on political and economic criteria included. All *acquis* chapters have been included in the update this year, and the document is therefore more comprehensive than the previous update in terms of areas covered. The *acquis* chapters describe changes in the situation in each area including the progress made in legislative alignment since the last update, developments concerning administrative capacity, and changes in the budgetary funds foreseen or foreign assistance funds foreseen.

The document is in general in line with the priorities of the Accession Partnership, the positions of Slovenia in the accession negotiations and the commitments it has made. However, in some cases slippages from the timetable presented in the negotiation context can be noted, for instance concerning the environmental *acquis* and free movement of goods.

The scope of the document in terms of coverage of the *acquis* could in some parts be widened, for instance concerning the non-harmonised area of the internal market. Also, the document provides in general more information on the measures implemented since the last update than on new measures foreseen. However, in some areas the scope of the information has been improved from the previous update, for instance concerning the free movement of capital chapter.

The budgetary provisions for implementation of the NPAA can in general be considered sufficient.

The information provided on plans for enhancing administrative capacity could be broadened in a number of areas including taxation and energy. The information provided on the administrative structures for regional policy, especially on the responsibilities and roles of the institutions for future management of structural funds, and on inter-ministerial co-ordination is insufficient.

In some cases the timetable provided for implementation of measures is rather vague, this is the case for instance concerning some areas of free movement of goods and free movement of persons, taxation, and energy.

The Commission will provide detailed comments on the NPAA later this year.

The NPAA is intended to have a co-ordinating role in Slovenia's preparations for membership. This function of the NPAA would be improved if all the information could be provided in one single updated document.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
30 September 2001***

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

X = Convention ratified

O = Convention **NOT** ratified

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

Statistical data

	1996	1997	1998	1999	2000
Basic data	in 1000				
Population (average)	1.991	1.987	1.983	1.986	1.990
	in km²				
Total area	20.273	20.273	20.273	20.273	20.273
National accounts	1000 Mio Tolar				
Gross domestic product at current prices	2.555	2.907	3.254	3.648	4.036
	1000 Mio ECU/euro				
Gross domestic product at current prices	14,9	16,1	17,5	18,8	19,5
	ECU/euro				
Gross domestic product per capita ²⁸ at current prices	7.500	8.100	8.800	9.400	9.800
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	3,5	4,6	3,8	5,2	4,6
	in Purchasing Power Standards				
Gross domestic product per capita ²⁹ at current prices	12.200	13.200	13.900	15.000	16.100
Structure of production	% of Gross Value Added³⁰				
- Agriculture	4,4	4,2	4,1	3,6	3,2
- Industry (excluding construction)	32,0	31,8	32,0	31,2	31,4
- Construction	5,6	5,6	5,6	6,2	6,0
- Services	58,0	58,4	58,3	59,0	59,3
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	77,6	76,7	75,9	76,0	75,8
- household and NPISH	57,5	56,4	55,7	55,8	54,9
- general government	20,1	20,4	20,3	20,2	20,8
- Gross fixed capital formation	22,5	23,4	24,6	27,4	26,7
- Stock variation ³¹	0,9	0,7	1,0	1,0	1,1
- Exports of goods and services	55,8	57,4	56,6	52,5	59,1
- Imports of goods and services	56,8	58,3	58,2	56,9	62,7
Inflation rate	% change over the previous year				
Consumer price index ³²	9,9	8,3	7,9	6,1	8,9
Balance of payments	Mio ECU/euro				
-Current account	25	10	-131	-735	-645
-Trade balance	-659	-687	-704	-1.169	-1.174
Exports of goods	6.670	7.442	8.108	8.095	9.564
Imports of goods	7.329	8.130	8.812	9.264	10.738
-Net services	506	558	439	342	463
-Net income	106	35	25	-23	-66
-Net current transfers	72	105	109	116	132
-of which: government transfers	-64	-59	-75	-80	-66
- FDI (net) inflows	153	331	221	170	196
Public finance	in % of Gross Domestic Product				
General government deficit/surplus	0,3	-1,2	-0,8	-1,3	-2,3
General government debt	:	:	:	25,1	25,8

²⁸ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

²⁹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

³⁰ Including FISIM

³¹ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

³² Changes in Methodology: PROXY HICP since 1996 (see methodological notes).

Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	14,0	17,8	21,3	24,2	29,0
	as % of exports				
Gross foreign debt of the whole economy	25,2	30,9	37,5	46,1	49,1
Monetary aggregates	1000 Mio ECU /euro				
- M1	1,3	1,4	1,8	2,0	2,0
- M2	4,2	5,4	6,7	7,1	7,2
- M3	6,4	7,6	8,9	9,6	10,3
Total credit	4,2	4,6	5,9	7,0	7,7
Average short-term interest rates	% per annum				
- Day-to-day money rate	13,8	9,6	7,4	6,8	6,8
- Lending rate	23,7	21,3	17,3	14,2	17,7
- Deposit rate	14,4	12,7	10,4	7,1	9,8
ECU/EUR exchange rates	(1ECU/euro=..Tolar)				
- Average of period	171,8	181,0	186,0	194,5	206,6
- End of period	177,3	186,8	188,8	198,9	213,5
	1995=100				
- Effective exchange rate index	89,9	84,8	82,5	78,0	71,5
Reserve assets	Mio ECU/euro				
- Reserve assets (including gold)	1.834	3.002	3.119	3.154	3.435
- Reserve assets (excluding gold)	1.834	3.002	3.119	3.154	3.435

External trade ³³	Mio ECU/euro				
Trade balance	-876	-879	-946	-1.446	-1.492
Exports	6.544	7.380	8.073	8.032	9.495
Imports	7.420	8.259	9.019	9.478	10.987
	previous year=100				
Terms of trade	101,9	99,8	102,5	99,5	94,8
	as % of total				
Exports with EU-15	64,6	63,6	65,5	66,1	63,8 P
Imports with EU-15	67,5	67,4	69,4	68,9	67,8 P

Demography	per 1000 of population				
Natural growth rate	0,1	-0,4	-0,6	-0,7	-0,2
Net migration rate (including corrections)	-1,7	-0,7	-2,7	5,4	1,4
	per 1000 live-births				
Infant mortality rate	4,7	5,2	5,2	4,5	4,9
Life expectancy :	at birth				
Males:	70,8	71	71,1	71,4	71,9
Females:	78,3	78,6	78,7	78,8	79,1

Labour market (ILO methodology)	% of labour force				
Economic activity rate	57,6	59,5	59,4	57,9	57,9
Unemployment rate, total	7,3	7,4	7,9	7,6	7,0
Unemployment rate, males	7,5	7,1	7,7	7,3	6,8
Unemployment rate, females	7,0	7,6	8,1	7,9	7,3
Unemployment rate of persons < 25 years	18,8	17,6	18,6	18,1	16,8
Unemployment rate of persons >= 25 years	5,6	5,6	6,1	6,0	5,6
	as % of all unemployed				
Long-term unemployment rate	52,2	56,7	57,7	57,7	62,6
Average employment by NACE branches	in % of total				
- Agriculture and forestry	10,2	12,7	11,5	10,2	9,9
- Industry (excluding construction)	36,8	34,3	33,6	32,9	32,4
- Construction	5,4	5,8	5,6	5,3	5,4
- Services	47,5	46,8	48,9	51,3	51,4

³³ From 1999, Bank of Slovenia monthly average exchange rate.

Infrastructure	in km per 1000 km²				
Railway network	59	59	59	59	59
	km				
Length of motorways	310	330	369	399	427

Industry and agriculture	previous year = 100				
Industrial production volume indices	101,0	101,0	103,7	99,5	106,2
Gross agricultural production volume indices	100,7	99,0	102,0	97,4	102,4 E

Standard of living	per 1000 inhabitants				
Number of cars	365	385	402	418	426
Main telephone lines	332,4	357,4	389,0	396,0	406,0
Number of subscriptions to cellular mobile services	20,7	46,4	98,6	326,5	571,6
Number of Internet subscriptions	:	:	:	:	:

P=provisional figures

E=estimate

Methodological Notes

Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonized Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1995 (rates from 1996).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series for Slovenia are presently available from 1999 only; the 1996-98 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified to DG ECFIN until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

External trade

Imports and exports (current prices). The data is based upon the special trade system (relaxed definition) as defined by UN Statistical Office IMTSCD. The statistical value of the goods is based on the customs value, i.e. on the transaction value of goods. The invoice value is recalculated at the Slovenian border by adding or subtracting a part or all of the costs of transport, loading, unloading and insurance, depending on the terms of delivery set down in the contract. The statistical value of exported goods is thus FOB-type valuation and the statistical value of imported goods is CIF-type valuation. Thus defined statistical values of exported and imported goods are recalculated to ECU/euro on the basis of monthly average exchange rate corresponding to the month of observation. The source of the exchange rate information is the Bank of Slovenia.

When the new customs legislation came into force at the beginning of 1996 (i.e. new Customs Law, Single Administrative Document and Combined Nomenclature) the methodology and electronic data processing of external trade statistics had to be adjusted. On product level comparability of data before and after 1996 is assured at the HS-6 products code.

Terms of trade. The terms of trade are the ratio of the price index for exports to the price index for imports. The indices are calculated by the "unit value" method (Fisher index) from US dollar values of imports and exports of goods. Transactions related to processing have been included since 2000.

Imports and exports with EU-15. Data declared by the Republic of Slovenia.

Demography

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is: population (X+1) - population (X) - Deaths (X) + Births (X). This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). In this case figures are more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

Labour Force

Economic activity rate (ILO Methodology). This rate is derived from LFS (Labour Force Survey) observing the following ILO definitions and recommendations:

Labour force: employed and unemployed persons according to 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 co-operatives or contributing family workers.

The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

- have no work,
- have been actively seeking a job in last four weeks and
- are ready to take up a job within a fortnight.

LFS excludes persons in compulsory military service and persons living in non-private households (so-called institutional population). Workers on lay-off and persons on maternity leave are classified among persons in employment. Till 1996 LFS was an annual survey, from the 2nd quarter of 1997 it is a quarterly survey.

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

This rate is derived from LFS (Labour Force Survey) observing the ILO definitions and recommendations.(see above).

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

Infrastructure

Railway network. All railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway. Road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

Industry and agriculture

Industrial production volume indices. Index of industrial production covers enterprises with 10 or more employees, except enterprises with activity of collection, purification and distribution of water.

Gross agricultural production volume indices. Indices are calculated from the data on crop and animal production and from triennial moving arithmetic mean of average purchasing prices.

Standard of living

Number of cars. Passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Telephone subscribers. Mobile phone subscribers are not included.

Sources

Total area, demography, external trade, labour market, infrastructure, industry and agriculture, standard of living (except Internet connections): National sources.

National accounts, inflation rate, balance of payment, public finance, finance: Eurostat.