

# **COMPOSITE PAPER**

**Reports on progress towards accession by  
each of the candidate countries**

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## **COMPOSITE PAPER**

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

#### **I INTRODUCTION**

As we approach the new millennium the European Union is preparing for the biggest expansion in its history. Early in the next century it will be possible to re-unite Europe on terms very different from the divisions and strife of the twentieth century. On the basis of shared ideals and agreed common rules of political, economic and social behaviour the current Member States and candidate countries will be able to chose to join together in a wider Union. The countries of central and eastern Europe, Malta, Cyprus and Turkey have already shown their determination and their capacity for change, their economies are increasingly integrated with that of the Union and huge efforts are being made by Parliaments, governments, the public and private sectors to prepare for EU membership. The EU is actively supporting these efforts and has set in motion the steps needed to make its own financial and institutional preparations for the accession of new members.

In recent years the EU has had to deal with the challenge of economic recession and rising unemployment at the same time as it was completing the internal market and preparing to launch economic and monetary union. This internal focus has led some to criticise the Union for being too introspective and for not addressing broader geo-political questions such as the prospect of membership for countries which are not currently in the enlargement process or the kind of relationship the EU wants to have with non-candidate European countries. Now the Union is ready to address wider questions about the future organisation of relations on the European continent. In presenting its Regular Reports on enlargement the Commission has taken the opportunity to contribute to this wider debate.

The idea of EU enlargement has acquired new impetus over the past year. One of the key lessons of the Kosovo crisis is the need to achieve peace and security, democracy and the rule of law, growth and the foundations of prosperity throughout Europe. Enlargement is the best way to do this. There is now a greater awareness of the strategic dimension to enlargement. The Commission wishes to use this new awareness to drive the enlargement process forward and is calling for resolute and courageous action.

The Commission is aware that there are two potentially conflicting objectives in the enlargement process: speed and quality. Speed is needed because there is a window of opportunity for enhanced momentum in the preparations for enlargement, in accordance with the expectations of the candidate countries. Quality is vital because the EU does not want partial membership, but new

members exercising full rights and responsibilities. Abandoning this principle would create severe internal tensions, hamper the EU's efficiency and damage public confidence.

It is a matter of striking the right balance, of keeping up speed without sacrificing quality. The Commission's recommendations are guided by this basic consideration.

As requested by the European Council, the Commission has prepared reports on the progress made by each candidate country in meeting the Copenhagen criteria. The European Council meeting in Cologne in June 1999 recalled its 1997 Luxembourg conclusions "that decisions on the opening of further negotiations can only be taken on the basis of the criteria established by the Copenhagen European Council. At the same time it highlights the importance also attached to the prospect of accession for applicant countries with which negotiations are not yet under way".

For this reason it invited the Commission, in its next progress reports, to "consider measures which can help crystallise that prospect for all applicant countries." The Commission has responded to this invitation by making proposals for an accession strategy which is set out in this paper.

This accession strategy is based not only on the analysis contained in the individual country reports which accompany this paper but also on an analysis of problems affecting all or several candidate countries. It sets out proposals for opening negotiations, for conducting them and for determining a date by which the EU will be ready for the first accession(s).

The enlargement of the Union is a complex undertaking, posing internal questions about institutional reform which need to be addressed before the Union can increase the number of Member States, and external questions involving redefining the relations of an enlarged Union with its neighbours. Apart from the thirteen countries which are already candidates the Union also has close relations with other neighbours which are based on very different views of the future. Although it is not possible to draw up neat classifications into which all of the Union's European neighbours fit it is nonetheless possible to identify different groups of countries based on their eligibility for and aspiration to future membership.

Countries such as Switzerland and Norway already meet all of the membership criteria but are not currently pursuing membership.

Countries of the former Yugoslavia and Albania aspire to EU membership but are far from meeting the criteria. The Union is ready to offer them the perspective of future membership provided they work together with the Union and among themselves to implement a strategy of stabilisation for the region, which should be based on the resolution of both political and economic problems through regional co-operation.

The EU also needs to develop its relations with its other neighbours to the East and to the South which will be intimately affected by the Union's further

enlargement. We need to find new ways in which an enlarged Union of 25 or 30 member states can work with its neighbours. The relationship with Russia, as with Ukraine, is fundamental to the future of the continent. But we have responsibilities to the South, too, and not least to the countries of Maghreb. The enlarged Union must contribute to the stability of Africa as well as its own continent.

## II. STATE OF PLAY

### 1. Pre-accession strategy

Preparing for enlargement is a challenge which will require change on all sides. The Union has taken far reaching decisions on future financing and has decided to hold an Inter-governmental Conference to take the institutional decisions which will enable it to welcome new members early in the next century. In this section of the paper the Commission briefly presents the state of play in the pre-accession strategy. Given the scale of the challenges which face the candidate countries of central and eastern Europe the pre-accession strategy is most developed in their case while that followed with Cyprus and Malta is being steadily aligned. To date the strategy followed with Turkey has been a specific one, reflecting the particular situation of that country.

#### a) Candidate countries of Central and Eastern Europe

Enormous changes have taken place in the political and economic situations of the candidate countries of central and eastern Europe in the last decade. Governments, and the population at large, have taken difficult and courageous decisions to give up the old certainties in favour of liberalisation and open markets in the belief that the sacrifices which are being made in the short term represent a long term investment in a better future. The structural reforms which are being made constitute a very real preparation for accession but are not sufficient in themselves to guarantee that these countries will be able to function as Member States in the early years of the next century. Therefore the EU has been actively involved in helping these candidates to undertake a more focused preparation through the enhanced pre-accession strategy decided by the Luxembourg European Council in December 1997.

The pre-accession strategy consists of a combination of priority setting coupled with financial assistance, and preparation of the negotiations through screening. It helps the candidate countries to prepare for their future membership by aligning with the Union's *acquis* before accession. It centres on the Accession Partnerships, the Europe Agreements and participation of the countries of central and Eastern Europe in Community programmes and agencies.

The **Accession Partnerships** are the main instrument of the pre-accession strategy. They set out the key short and medium term priorities to be met in order to prepare for membership. They also indicate the financial assistance available from the EU (over €3 billion a year from 2000) in support of these priorities and the conditionality attached to that assistance. The EU has not had to invoke the conditionality clause set out in the Accession Partnership Regulation which refers to insufficient progress towards meeting the Copenhagen criteria or failure to meet Europe Agreement obligations. However, the situation of certain countries in this regard is being closely monitored. Proposals to revise the Accession Partnerships in the light of the analysis presented in the regular reports are being put forward by the Commission to the Council at the same time as the Regular Reports.

Each country has prepared a **national programme for the adoption of the acquis** which indicates the resources (human, financial) and the timetable foreseen for the implementation of the accession priorities. In addition to the Accession Partnership priorities, most applicant countries have defined their own priorities for accession. An assessment of each programme is included in the corresponding regular report.

The **Europe Agreements** remain a key element of the pre-accession strategy. The proceedings of the institutions of the Europe Agreements have been adapted to better monitor the pre-accession process. In particular, in 1999, the agendas of the Association Councils, Committees and sub-committees have been re-oriented to systematically examine with each candidate country the way in which the Accession Partnership priorities are being implemented. A new structure of sub-committees focused on the accession priorities has been agreed with the candidate countries, which should facilitate closer monitoring. It is also interesting to observe that the Europe Agreements have become part of the working legal environment for companies and individuals as is evidenced by the increasing number of Court cases where the obligations of the parties to the Europe Agreements are invoked.

The Luxembourg European Council underlined the importance of **participation in Community programmes** as part of the enhanced pre-accession strategy and as a useful preparation for accession by familiarising the associated countries and their citizens with the Union's policies and working methods. All candidate countries from central and eastern Europe participate in Community programmes, in particular in the fields of education, vocational training, youth, culture, research, energy, the environment, small and medium-sized enterprises and public health. Cyprus participates in certain Community programmes while Malta and Turkey do not yet participate.

The costs of modernising the economies of the candidate countries and of aligning their infrastructures with the *acquis* are considerable. They will mainly be borne by the private sector but will also require sustained public investment programmes. The EU has been providing **financial and expert assistance** to the candidate countries since the beginning of the transition process. As the pace of integration accelerates the Union has decided to double its pre-accession assistance to over € 3 billion a year. From 2000 onwards the Phare programme will be joined by two new instruments designed to foreshadow the Structural Funds – ISPA, which will allocate over €1 billion a year to investment in transport and environment, and SAPARD, which will allocate over € 500 million a year to agricultural and rural development.

The **Phare programme** is now ten years old. From the early years of supporting transition to democracy and the market economy it has now been remodelled to become an accession driven instrument. With an annual budget of € 1.5 billion it co-finances **institution building** and **investment in the acquis**. The two themes were chosen to concentrate resources on the key challenges facing the candidate countries.

**Institution building** helps the candidates meet the important challenge of strengthening their administrative and judicial capacity to enforce and implement the acquis. The Commission has mobilised significant human and financial resources to help them through the process of **twinning** which involves the long term secondment of officials from Ministries, regional bodies, public agencies, and professional organisations in the Member States to corresponding bodies in the candidate countries. This will ensure a “hands on” transfer of technical and administrative know how. Already over one hundred twinning advisers have been selected to work in key areas such as agriculture, finance, environment and justice and home affairs (see Annex 4 for details). Where twinning does not allow the mobilisation of the necessary expertise, other forms of technical assistance are used, such as the provision of technical advice on the acquis, inter alia through TAIEX, or the development of facilities for training the public administration at central and regional level.

Phare co-financing of **investment** in the acquis contributes to equipping the candidate countries with the infrastructure which enables them to implement the acquis. To give a few examples, Phare is financing the equipment of testing laboratories in the Czech Republic, the computerisation of the eastern border of Poland and the modernisation of the dairy industry so that hygiene and control standards meet EU requirements. From 2000 onwards Phare will devote part of its annual budget to regional development and social cohesion, helping the candidate countries to draw up national development plans which will be compatible with EU policy and methodology. This process will help boost economic development and prepare for a smooth transition to participation in the Structural Funds after membership.

Phare can only meet a very small proportion of the financial needs of the candidate countries but pre-accession aid can continue to act as a catalyst by co-financing operations which are undertaken by the European Investment Bank (EIB) and the international financial institutions. A Memorandum of Understanding concluded in 1998 between the Commission and the international financial institutions aims to enhance co-ordination between the respective financial instruments and to identify co-financing opportunities. Over €1.8 billion were mobilised in 1998-1999 (€250 million from Phare and €1.55 billion from the IFIs) for investment projects in the areas of transport and the environment, which represents a ratio of 1:6. The European Investment Bank works closely with the Commission to achieve the EU's policy objectives. EIB resources available over the period January 1997 – January 2000 amount to €7 billion for lending activities in central and eastern Europe and Cyprus.

#### **b) Cyprus and Malta**

Relations with Cyprus and Malta are both based on Association Agreements but have followed slightly different paths in recent years. A specific pre-accession strategy for Cyprus was decided by the European Council in Luxembourg. It includes access to TAIEX services, participation in Community programmes and in certain specific projects aimed at strengthening judicial and administrative capacity as well as other projects in the area of justice and home affairs. In order to take the pre-accession strategy

further the Commission has decided to propose an Accession Partnership for Cyprus and has asked the authorities to draw up a National Programme for the adoption of the acquis.

Following the reactivation of Malta's application for EU membership the Council invited the Commission to make proposals for a pre-accession strategy for Malta and give the green light to begin screening. This process started in February 1999. In June 1999 the Council agreed to extend the current multilateral political dialogue with the countries of central and eastern Europe and Cyprus to Malta. As for Cyprus, the Commission has decided to propose an Accession Partnership for Malta and has asked the Maltese authorities to prepare a National Programme for the adoption of the acquis.

For both Cyprus and Malta the Commission is proposing to replace the Financial Protocols which will expire at the end of the year with a specific financial Regulation which will provide a financial contribution towards meeting the priorities of the Accession Partnership.

## **2. Screening**

In April 1998, the Commission launched an analytical examination ("screening") of the acquis with the candidate countries of central and eastern Europe and Cyprus to first explain the EU legislation (multilateral screening).

With the six countries with which negotiations have already started (see below) the aim was also to identify areas where there may be problems to be dealt with in the negotiations (bilateral screening). Completion is foreseen by the end of 1999.

With the five countries which have not yet started negotiations, the aim of this exercise was primarily to speed up their preparation for accession by facilitating a better understanding of the acquis and of how its adoption should gradually be undertaken. Bilateral screening has also helped to identify areas in the adoption and implementation of the acquis where pre-accession assistance would help in overcoming the difficulties. Completion of bilateral screening is also foreseen by the end of 1999.

A screening exercise was begun with Malta in February 1999.

It will be necessary to organise new screening meetings from time to time to present the new acquis as it develops.

## **3. The accession negotiations**

Accession negotiations were formally opened on 31 March 1998 with Hungary, Poland, Czech Republic, Estonia, Slovenia and Cyprus. The orientations for the negotiations were set out by the European Council in Luxembourg: the decision to enter into negotiations with these countries does not imply that they will be concluded at the same time. Each of the applicant countries will proceed at its own pace, depending on its degree of

preparedness. The principle is that each candidate is assessed on its own merits and will join when it is able to meet the obligations of membership.

The negotiations are conducted in bilateral *accession conferences* between the Member States and each of the applicants, on the basis of 31 chapters covering all areas of the *acquis*. They started on 10 November 1998 at Ministerial level on 7 out of the 31 chapters: science & research, education & training, small & medium-sized enterprises, culture & audio-visual policy, telecommunications, industrial policy, common foreign & security policy. During the first semester of 1999, 8 additional negotiating chapters have been opened: company law, statistics, consumer and health protection, fisheries, competition policy, free movement of goods, customs union and external relations.

Of the 15 chapters which have been opened by the end of September 1999, seven of them (statistics, telecommunications, industrial policy, consumer protection, research, small & medium sized enterprises and education & training) have been provisionally closed with all countries. For Hungary, the Czech Republic and Slovenia, fisheries has also been provisionally closed and for Cyprus, three other chapters have been provisionally closed: culture & audio-visual, external relations and customs union.

The Presidency of the Council intends to open negotiations on the following eight chapters before the end of 1999: social policy, EMU, free movement of capital, energy, transport, taxation, freedom to provide services and environment. The next Presidency intends to open the remaining seven chapters by the end of June 2000: agriculture, regional policy, free movement of persons, justice and home affairs, financial control, financial and budgetary provisions and institutions. The last chapter can only be considered after the EU's internal institutional reform has taken place. Once all of these chapters have been opened it should be possible to identify the most difficult negotiating problems.

#### **4. Turkey**

In Luxembourg in 1997 the European Council indicated that it wished to bring Turkey into the enlargement process and the Council Presidency in the first half of 1999 made serious efforts to take this process forward. The EU has developed a specific European strategy for Turkey and in October 1998 the Commission put forward two proposals, which are now before the European Parliament, designed to support this strategy with a financial envelope of €50 million a year.

Turkey has expressed the wish to be a candidate country and should be considered as such. To date the European strategy for Turkey has been more narrowly focused than for the other candidate countries. In particular the financial support from the EU which could have underpinned the process of alignment has been limited. To encourage in-depth reforms, it is now time to take a step forward and to further develop the strategy with regard to Turkey. While retaining specific features linked to the current situation of the country it can in future be aligned more closely on the strategy followed with the other candidate countries

## **5. The European Conference**

The European Conference is a forum for political consultation on issues of common interest to the participants, although regrettably so far Turkey has declined all invitations to participate. It continues to raise interest among some other European countries. As stated by the European Council in December 1998, the future role and membership of the European Conference should be considered at the Helsinki European Council. It is hoped that Turkey will participate in the European Conference from now on and become a full and active member, thus enabling the Conference to function as intended, perhaps with some improvements to its working methods.

### **III. PROGRESS BY THE COUNTRIES OF CENTRAL AND EASTERN EUROPE, CYPRUS, MALTA AND TURKEY IN MEETING THE MEMBERSHIP CRITERIA**

The Commission first set out its analysis of the progress made by the candidate countries of central and eastern Europe in meeting the Copenhagen criteria in its July 1997 Opinions on their applications for membership. These were followed by the first Regular Reports in 1998 which were expanded to include reports on Cyprus, Malta and Turkey. Since the reports follow the same method each year they have come to represent important staging posts on the road to accession and useful points of reference and comparison for all who wish to follow the process.

The Commission's assessment of the progress made in the candidate countries is based on the same objective accession criteria as defined by the European Councils in Copenhagen and Madrid and as used for the 1997 Opinions and the first Regular Reports in 1998. There has been no change in the evaluation methodology in compiling this year's Reports. This means that the performance of each country can be compared to previous reports and across countries and sectors. In keeping with the method accepted by the European Council the Commission has highlighted measures which have been adopted rather than those which are being prepared or have not yet been finalised. This process of regular evaluation based on unchanging criteria is the only way to make a fair and balanced assessment of the real capability of each candidate country to meet the Copenhagen criteria. In compiling the regular reports for the candidate countries in Central and Eastern Europe, Cyprus, Malta and Turkey, the Commission set out to analyse whether, since November 1998, reforms which were announced or indicated have in fact been carried out. In the regular reports, the Commission has also analysed progress in the capacity of each candidate to implement the *acquis*. As requested by the European Council in Madrid, the Commission has continued to highlight steps taken to adapt administrative structures to the requirements of the *acquis*.

The assessment of the progress made since the first Regular Reports is based on several sources of information. First of all it is based on information provided by the candidate countries themselves. The Commission has also used information provided in the position papers tabled in the negotiations, in the screening of the *acquis communautaire* as well as in meetings held under the auspices of the Europe Agreements. It has also compared information from these sources with that contained in the new National Programmes for the Adoption of the *Acquis*, which were transmitted to the Commission in June 1999. As for the Opinions and the first Regular Reports, the Commission has also drawn on the reports of the European Parliament, evaluations from the Member States, the work of international organisations, in particular the Council of Europe and the OSCE, and international financial institutions as well as non-governmental organisations.

In the 1998 Reports the Commission was critical of a loss of momentum in both the Czech Republic and Slovenia. Both governments took the message to heart and accepted that their pre-accession preparations would need to be accelerated. There has been a clear stepping up of the pace in Slovenia. The

main political parties have agreed to give priority to adopting EU-related legislation and significant progress has been achieved. In the Czech Republic, despite efforts by the government to prepare and put forward legislation there has not been the same kind of co-operation in the Parliament. These examples show that preparing for EU membership is not just a matter for governments but for all the political leaders in the candidate countries and that progress can only be made when the executive, government and Parliament are all agreed on the need to work together.

### **1. Political criteria**

The Copenhagen European Council stated that 'membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights, and the respect for and protection of minorities'. Article 6 of the Amsterdam Treaty enshrines the constitutional principle that 'The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law'.

In its Opinions on the countries of central and eastern Europe, the Commission drew the overall conclusion that all the candidate countries, except Slovakia, met the political criteria even if a number of them still had to make progress in consolidating their democratic practices and in the protection of human rights and minorities. In its 1998 Regular Report the Commission concluded that Turkey did not fulfil the political criteria.

Over the past year the most notable developments with regard to the fulfilment of the political criteria have taken place in **Slovakia**. The last Regular Report was issued just after the elections in September 1998 which brought a change of government. The country has pursued an ambitious programme of political reforms. Free and fair municipal elections were held in December 1998. Constitutional measures were adopted to facilitate the election of the Slovak President by universal suffrage in May 1999. The possibility for opposition participation in parliamentary committees and oversight bodies was opened.

The Government, in close co-operation with the concerned international organisations, prepared minority language legislation which was adopted by Parliament in July 1999. Amendments to the constitution are being prepared to ensure the independence of the judiciary. With the depth and success of this reform process, Slovakia is now considered to meet the Copenhagen political criteria.

Concerning human rights respect for fundamental rights is generally guaranteed in the candidate countries. Most of the candidate countries are ratifying the main human rights instruments. There has been little evolution of the situation in **Turkey** with regard to the problems highlighted in last year's report. The Commission remains concerned about shortcomings in terms of respect for human rights and the rights of minorities and about the constitutional role which the army plays in political life through the National Security Council. With regard to the case of Mr Öcalan, the Union has expressed the hope that the death sentence will not be carried out. However, there have been some improvements reflecting the intention of the authorities

to counter human rights abuses by public officers. In this respect several legislative and administrative measures have been adopted recently.

The other candidate countries have continued to deepen and improve the functioning of their pluralistic, democratic systems of government. Free and fair national and local elections, at Parliamentary or Presidential level, were held in Hungary, Latvia and Estonia. Romania managed to cope with internal turbulence in the form of strikes and the external crisis in the Western Balkans without departing from democratic practice and respect for the rule of law.

A common challenge for all of the candidate countries is the strengthening of the judiciary. Considerable effort has been made to train judges, fill vacancies and launch a process of reforms aimed at improving the handling of cases. This needs to be sustained.

Corruption is widespread. It is exacerbated by low salaries in the public sector and extensive use of bureaucratic controls in the economy, which easily engender corrupt behaviour. The authorities lack conviction in their fight against corruption with the result that the anti-corruption programmes which have been launched in most countries are having limited results.

The situation of over 100,000 children in institutionalised care in **Romania** has seriously deteriorated. The government did not act in time to ensure that adequate funding was provided for childcare and did not give this issue the political priority which it urgently required. The rights of these children to decent living conditions and basic health care is a human rights issue. The Commission considers that, at the moment, Romania still fulfils the Copenhagen political criteria, on the assumption that the authorities continue to give priority to dealing with the crisis in their child care institutions. The Commission will monitor closely recent decisions by the government to provide the necessary budgetary resources and to carry out a structural reform which puts childcare in Romania on a secure and decent basis, and in full respect of human rights.

While most candidate countries have a robust and lively media, the independence of radio and television is fragile. Efforts need to be sustained to foster independence and to ensure that media boards are staffed with representatives from a broad political spectrum.

On **minorities**, many of the weaknesses identified in the last regular reports have been addressed. The Estonian Parliament adopted amendments to the Citizenship law to allow stateless children to become citizens. The Slovak Parliament adopted minority language legislation. Nonetheless, some candidate countries continue to face difficulties in finding the right balance between legitimate strengthening of the state language and the protection of minority language rights. In this context, the language law in Estonia and draft legislation in Latvia fall short of meeting international standards. Latvia has demonstrated a willingness to review the draft with the concerned international organisations so as to bring the draft into compliance with international standards and the Latvian constitution. Estonia has not

demonstrated the same degree of flexibility and is only prepared to introduce improvements in the implementing provisions rather than the law itself.

Deep-rooted prejudice in many of the candidate countries continues to result in discrimination against the **Roma** in social and economic life. There has been an increasing incidence of racially motivated violence against the Roma which has not received the unequivocal response from the authorities which it demands. Roma communities suffer unemployment, slum-like living conditions, poor health and education and increasing dependence on social welfare (where it exists). Roma children are segregated in some school systems and many are street children. While there have been encouraging developments in some of the candidate countries with the adoption and specific programmes aimed at improving the situation of the Roma, a concerted effort is still required to ensure that these programmes are actually implemented.

The situation of the **Hungarian minority** in Slovakia has improved with the inclusion of representatives of that minority in the Slovak government, concerted efforts by the government to improve inter-ethnic relations, improvements in the policy of subsidies for minority cultural activities and notably the adoption of minority language legislation. The Romanian authorities continue to demonstrate a willingness to find an arrangement to create a Hungarian-German university, although there has been little concrete progress in that regard.

### Conclusion

In sum, with the very positive developments in Slovakia, and with the exception of Turkey, the overall record of the candidate countries in relation to building stable and robust democracies, respecting the rule of law, has improved. However, the treatment of minorities and the Roma, and the situation of children in care in Romania continue to give rise to concern.

## **2 Economic criteria**

### **a) Overall development**

This year's assessment of the progress made in meeting the Copenhagen economic criteria takes place against the background of a world wide slowdown in growth in the aftermath of the Asian, Russian and Kosovo crises. Some of the candidate countries have been more affected than others by these crises and in the individual reports the Commission has also considered their impact, the policy response of each government and the capacity of these economies to adjust to these external shocks. In general, the impact of the Russian crisis has been more damaging than expected in last year's reports. In particular, the Baltic countries have been somewhat more affected. Turkey has also suffered significantly from the Russian crisis and from the recent earthquake.

The economic impact of the Kosovo crisis on the candidate countries has been limited, with Bulgaria and Romania suffering most, mainly from the

disruption of the transport route through the Danube. The consequences of the conflict in terms of influx of refugees and downturn in trade were not as severe as first expected. Nevertheless, the current account balance deteriorated, in a difficult international investor's environment for the Balkan region. It should be recalled that, anticipating difficulties in the external financing needs, the EU has decided to provide macro-financial assistance loans to these two countries, in addition to the doubling, from next year, of grant aid from the pre-accession instruments. With the early resolution of the conflict, the main problem of a potential slow down in investment faced by both countries has disappeared and investor confidence continues to focus on progress in reforms linked to accession to the EU. In this light, economic prospects for Bulgaria remain broadly favourable because of the improved economic fundamentals while they remain unchanged for Romania.

The average real GDP growth in 1998 for the ten central and eastern European countries was 2.2%, after becoming negative in the second half of 1998 for most countries. Hungary and Poland, at 5.1% and 4.8% respectively, maintained the highest growth rates. The Czech Republic and Romania, as a result of the previous fiscal tightening compounded with lack of structural reforms, in particular in Romania, remained in recession with negative growth of -2.3% and -7.3%, respectively. Bulgaria has returned to positive real GDP growth of 3.4%. Registered unemployment increased again in most countries while the unemployment rate according to International Labour Organisation definition shows a more erratic pattern. Inflation was much lower than anticipated, as commodity prices fell dramatically, due to falling worldwide demand, and goods destined for Russian markets flooded the domestic ones. With the exception of Estonia and the Czech Republic, all of the central and eastern European candidate countries registered a widening of their trade and current account deficits in 1998 as a result of decline in external demand. In Lithuania, in particular, the current account deficit rose to 12% of GDP while the fiscal deficit also widened. At the same time, general government balances deteriorated in all countries for which data is available. Estonia, Latvia and Slovakia have begun to curb this unfavourable development, partly by cutting government expenditure. A similar policy response is underway in Lithuania and Poland, and is also needed in Hungary. The main economic figures are set out in Annex 2.

Growth has only recently started to recover and the expected average real rate of output growth for 1999 is about 1.5%, with rates ranging from about -5% for Romania to close to 4% for Hungary and Poland. Slovenia is expected to record about 3% real growth with the remaining countries showing close to zero growth.

Privatisation continued to make progress in all countries, with some moving into the utilities sectors and also with the successful sale of minority stakes in a number of big telecommunications companies, in others. The privatisation of banks has been rather slow. Major advances were made in Poland, although starting from a lower level, which sold majority stakes in three banks. The Czech Republic sold one bank, Romania two small ones and Scandinavian investors continued to show an interest in the Baltic countries banks. Lithuania sold its largest insurance company. The use of privatisation receipts to finance current expenditure is a cause of concern, especially considering the huge need

for investment in infrastructure in all of the candidate countries and for fiscal sustainability in the medium term.

The overall volume of foreign direct investment into the central European candidate countries increased in 1998 despite greater investor caution about emerging markets in general. Net inflows were higher than 3% of GDP in most countries. Foreign direct investment into Estonia and Lithuania increased sharply to 11% and 8.6% of GDP respectively, although much of the increase in Lithuania was due to a single large deal. The Czech Republic, Poland and Romania attracted twice as much as in the previous year, as also did Slovakia although at a much lower level than could be expected on the basis of its potential. Governments are conscious of the need to develop a more investor-friendly environment by increasing legal certainty and by reducing red tape and government intervention in the economy. The Commission has indicated its concern about a number of 'tailor made' deals regarding the level of import protection, tax relief and other incentives being sought by international investors and being agreed by certain governments. In the interests of economic efficiency, transparency and equity, any concession should be made on an objective basis and made available to all those meeting the criteria, whether they are domestic or foreign companies. On a cumulative basis, the stock of foreign direct investment per capita is highest in Hungary, followed by the Czech Republic, Estonia and Latvia.

Restructuring of certain large industrial sectors is proving difficult in some countries due to the painful social consequences. For example, the restructuring of the steel industry is not advancing at a sufficient pace in Poland and is also proving difficult in Romania, Slovakia, the Czech Republic and Bulgaria. Governments need to take on this challenge, as it will affect greatly their future capacity to compete successfully in the Union.

All of the candidate countries have increased the trade integration with the EU. The free trade provisions established by the Europe Agreements have paved the way for economic integration between the candidate countries and the EU. The accession process has triggered sustained efforts in completing or establishing market economies and is now a driving force to strengthen the competitiveness of these countries. In the case of Turkey, the Customs Union is playing a key role in market integration with the European Union. The same is true for the Association Agreements with Malta and Cyprus.

The European Union is now, by far, the most important trading partner of the thirteen candidate countries. Total value of trade has increased by more than twofold to €180 billion between 1993 and 1998 and, at 10% of total trade, the candidate countries are now the EU's second trading partner after the US (at 20%). The EU trade surplus with the candidate countries reached €33 billion in 1998, of which 35% stems from trade with Poland and 25% from Turkey. The EU trade deficit with the rest of the world (€13 billion in 1998) has thus been more than compensated by the surplus resulting from trade with the candidate countries.

In addition, and partly due to the Russian crisis that has reinforced a fundamental trend, trade integration between the EU and the candidate countries has increased significantly. The highest shares are to be found in Hungary with 64.1% of its imports coming from the EU and 73.3 % of its

exports going to the EU and in Poland with 65.9 % and 68.3 %, respectively. Lithuania exhibits the lowest exports and import shares, at 37.4 and 47.3%, demonstrating very strong historical trade links with Russia. The capacity of candidate countries to quickly shift their trade pattern from the East towards the West, is clearly one of the reasons explaining the limited overall impact of the Russian and Kosovo crises on their economies. Clearly, the economies that were both more reformed and more integrated in EU markets, have suffered less from these external factors and have had less adjustment to do.

Foreign direct investment has fostered integration but it is not the only factor. Hungary, the country with the highest stock of FDI is also the most integrated, however Slovenia and Poland come very closely behind even though the stocks of FDI are relatively lower. European companies have been particularly active in this region and represent by far the lion's share of total foreign investments. The accession objective as well as the new and more liberal trade and investment frameworks has clearly encouraged the increased investment flows of European companies to these countries. Foreign direct investment has significantly contributed to modernising the economies of the candidate countries through new technology transfer, higher production standards, know-how transfer and new business diffusion. In addition, foreign direct investment has a beneficial effect on employment while making local companies suppliers of modern product and service. Moreover, the supplier of FDI funds also benefits from access to new markets and lower costs conditions combined with a well-educated labour force.

Whereas integration between the EU and the candidate countries has moved forward rapidly, it has progressed at a more limited pace between some of the candidate countries, even though Romania's trade with the Central Europe Free Trade Area (CEFTA) grew by 50% last year. Hesitant intra-CEFTA trade liberalisation as well as recourse to safeguard clauses has curbed the possibilities for trade expansion, which were expected from CEFTA. As a consequence, the potential benefits of CEFTA integration (either for outsourcing product components or for exporting production), on which larger investments were often based, have not been fully achieved. Intra-CEFTA trade liberalisation should thus be accelerated in parallel with EU-CEFTA integration to facilitate investment and help prepare the region for the enlarged European market.

The signature of Free Trade Agreements between the candidate countries in Central and Eastern Europe and Turkey is a positive element, which will help to accelerate economic integration.

*Measures for fostering economic integration - To be taken by the candidate countries*

A high level of investment, including foreign direct investment, is necessary to update infrastructure, further restructure industry and modernise the economies of the candidate countries and encourage further integration. In order to make long-term investments, companies as well as foreign investors, need a stable, predictable and supportive regulatory framework, enforced by an efficient public administration. Inadequate or poor quality regulations

reduce market confidence and make it difficult for investors to take decisions. Similarly, inconsistent enforcement of regulations undermines the ability of companies to operate efficiently and to respond to change. Such conditions limit the flow of investments, which, despite its remarkable increase, remain relatively lower in some candidate countries compared to other parts of the world. As underlined by the European Round Table of industrialists candidate countries therefore need:

- To continue targeted reform of the existing regulatory environment and clarification of property rights. A legal framework, which will facilitate investment in transport and environment infrastructures, should be completed. This will also significantly speed up the implementation of the *acquis* in these areas.
- To accelerate the pace of *acquis* adoption and implementation, primarily for single market issues.
- To reform the process of taking regulatory decisions, including through close contacts with the business community and enhanced social dialogue.

*Measures for fostering economic integration - To be taken by the EU*

In addition to the important decisions it has already taken to prepare for the future financing of the enlarged Union and the forthcoming Inter Governmental Conference which will take the necessary institutional decisions, there are a number of smaller steps which the EU should take in order to incorporate the increasing integration of the candidate countries.

The EU has already granted free trade in industrial products to the candidate countries of central and Eastern Europe but trade in agricultural products is still subject to limitation. Improving access to the EU market for agricultural products from these countries could enhance the transformation of this sector, by improving levels of competitiveness and quality before accession. Therefore, on condition that the countries of central and eastern Europe are prepared to reciprocate, the EU should progressively reduce current restrictions so as to liberalise agricultural trade with them taking into account the last reform of the common agricultural policy (Agenda 2000), the diverse agriculture structures of the countries of central and eastern Europe and the WTO context. Current negotiations on further mutual concessions in agricultural trade could be expanded to incorporate this objective. The issue of export subsidies on goods going to candidate countries also needs to be re-examined.

The application of the anti-dumping rules to the candidate countries should also be reviewed as they become more and more integrated with the Union's economy. At its meeting in Essen the European Council decided that «as satisfactory implementation of competition policy and control of state aids together with the application of those parts of Community law linked to the internal market are achieved, providing a guarantee against unfair competition comparable to that existing inside the internal market, so the Union should be ready to consider refraining from using commercial defence instruments for industrial products». During 2000 the Commission will assess the situation of

each candidate country and if sufficient progress has been made will include appropriate proposals in its third Regular Reports.

## **b) Country overview**

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

### **(i) The existence of a functioning market economy**

The existence of a functioning market economy is assessed on the basis of whether:

- Equilibrium between demand and supply is established by the free interplay of market forces; prices, as well as trade, are liberalised;
- Significant barriers to market entry (establishment of new firms) and exit (bankruptcies, liquidations) are absent;
- The legal system, including the regulation of property rights, is in place; laws and contracts can be enforced;
- Macro-economic stability has been achieved including adequate price stability and sustainable public finances and external accounts;
- Broad consensus about the essentials of economic policy;
- The financial sector is sufficiently well developed to channel savings towards productive investment.

As in 1998, the Commission finds that Poland, Hungary, Cyprus, Estonia, Slovenia and the Czech Republic can be regarded as functioning market economies, even though the situation in the Czech Republic gives rise to concern. As a result of its consistent implementation of economic policy and reform Latvia should now also be regarded as a functioning market economy. Malta has been assessed and should be added to this group.

Slovakia and Lithuania are close to being functioning market economies and if the reforms, which have been decided or are in the pipeline, are consistently implemented in the coming year, both countries should fulfil this sub-criterion in the course of next year. Bulgaria also continues to make substantial progress in the establishment of a functioning market economy, but from a low starting point. The situation in Romania is very worrying with a third successive year of recession, continuing macroeconomic instability and a persistent lack of a reliable legal and institutional framework to accompany lagging economic reforms. Turkey has many of the characteristics of a functioning market economy. It has made progress in achieving macroeconomic stability but there is a need to continue this process, by bringing down inflationary pressures and public deficits and developing further structural reforms.

## **(ii) The capacity to withstand competitive pressure and market forces within the Union**

This sub-criterion is assessed on the basis of the following:

- the existence of a functioning market economy, with a sufficient degree of macro-economic stability for economic agents to make decisions in a climate of stability and predictability;
- a sufficient amount, at an appropriate cost, of human and physical capital, including infrastructure (energy supply, telecommunications, transport etc), education and research and future developments in this field;
- the extent to which government policy and legislation influence competitiveness through trade policy, competition policy, state aids, support for SMEs, etc;
- the degree and the pace of trade integration a country achieves with the Union before enlargement. This applies both to the volume and the nature of goods already traded with Member States;
- the proportion of small firms, partly because small firms tend to benefit more from improved market access, and partly because a dominance of large firms could indicate a greater reluctance to adjust.

In this year's reports, the Commission finds that Cyprus has the ability to cope with competitive pressure and market forces within the Union and Malta's new assessment reaches also this conclusion. Poland, Hungary, Estonia and Slovenia have improved their ability to cope with competitive pressure and market forces within the Union in the medium term. The Czech Republic has continued to lose ground but should still be able to meet this sub-criterion in the medium term if it consistently implements remaining economic reforms.

Despite the impact of the Russian crisis, Latvia has made good progress and should be able to meet this sub-criterion in the medium-term. The adoption and implementation of Slovakia's current legal and structural reform programme should ensure that the Slovak economy is capable of fulfilling this second sub-criterion in the medium term.

Lithuania is not far behind, but will require sustained implementation of its recent efforts. The time horizon for the fulfilment of this sub-criterion by Bulgaria still stretches beyond the medium-term but it has made remarkable progress. Romania has a long way to go. Turkey needs to implement a consistent economic development policy aimed at the modernisation and structural reform of underdeveloped sectors and regions in order to ensure that the whole of the economy has the ability to cope with competitive pressure and market forces within the Union.

## **(iii) Conclusions**

In conclusion, taking the two criteria together, it can be said that two of the applicants, Cyprus and Malta, are functioning market economies and should be able to cope with competitive pressure and market forces in the Union. They fully meet the Copenhagen economic criteria. Turkey is a special case, since it is a dual economy. There is a need to improve the functioning of markets and to enhance its ability to cope with market forces and competitive

forces in the Union, in the medium term. As was the case at the time of the Opinions, of the ten central and eastern European countries, Hungary and Poland come closest to fully meeting the criteria, followed by Slovenia and Estonia, and then the Czech Republic, which needs to make serious progress. Latvia has made significant progress in the past year and can now be added to this group. Slovakia, by completing ongoing reforms, should be able to meet the first criterion in the course of next year, thereby enabling it to fulfil the second criterion in the medium term. Lithuania cannot yet be regarded as fully satisfying either criteria, as progress in the previous year was not as strong as could have been expected, partly as a result of the government's response to the Russian crisis. Bulgaria and Romania do not meet either criterion. Encouragingly, Bulgaria continues to make significant progress and shows sustained efforts in the economic reform process, but started from a very low level. Regrettably, the situation in Romania has, at best, stabilised compared with last year.

### **3. Other obligations of Membership**

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

The adoption of the *acquis* involves a process of transposition, implementation and enforcement. It needs to be set in a strategic context with realistic timetables established in relation to administrative and budgetary resources. The importance not only of incorporating Community legislation into national legislation, but as well of ensuring its effective application through appropriate administrative and judicial structures was highlighted by the European Council in Madrid and is a central feature of the accession negotiations. It is a key aspect of preparation for membership and an essential pre-condition for creating the mutual trust indispensable for future membership.

A well developed civil service and judiciary is central to the candidate countries being able to assume the obligations of membership and to make effective use of EU structural funding. In order to effectively implement and enforce the *acquis*, existing institutions need to be strengthened and new institutions created. The appropriate human and financial resources need to be made available. Training and career development programmes are key features of this process.

#### **a) Country overview**

All of the candidate countries have continued their efforts in legal approximation. Concrete progress in the adoption of the *acquis*, however, varies significantly between candidate countries. In general, Hungary, Latvia, and Bulgaria have maintained a good pace of legislative approximation. Slovenia and Slovakia have stepped up their efforts significantly. Estonia, Lithuania and Romania have a mixed record, with good progress in certain areas offset by delays in others. The pace of transposition remains sluggish in Poland and the Czech Republic. The slow pace and piecemeal approach to

alignment in these two countries is not consistent with their political aspirations for rapid accession to the EU. Cyprus still has to transpose a substantial amount of legislation and the scheduling of transposition has been set for dates which are very close to Cyprus' own target date for accession, which leaves little margin for demonstrating effective implementation of the legislation. Malta's progress is limited with little or no progress having been made in areas other than free movement of services. Turkey continues to comply with its obligations under the Customs Union but continued efforts are needed notably in the competition and customs fields.

Concerning the administrative and judicial capacity, Hungary has developed a reasonably consistent track record in setting up and strengthening its institutions to implement and enforce the acquis. Performance in institutional strengthening in Poland, the Czech Republic and Estonia has been sketchy, resulting in a situation where certain parts of the administration are well equipped to effectively implement the acquis while others have serious weaknesses. Slovenia continues to build its administrative capacity but faces a major challenge in actually setting up the many institutions foreseen in recently adopted laws. Lithuania has made impressive progress in setting up necessary structures but the newly established structures need a certain period of consolidation to demonstrate their effectiveness. While Latvia continues to make progress in key sectors such as state aids and standards and certification, serious attention needs to be devoted to general public administration and judicial reform. Slovakia needs to translate its good intentions and recent legislative progress into concrete progress in reinforcing its administration and judiciary. Bulgaria has made good efforts but is faced with resource constraints. The capacities of the administration and the judiciary in Romania remain weak. Malta needs to strengthen its administrative capacity in all areas and set up a number of key institutions. Whilst starting from a strong administrative base, Cyprus needs to create institutions in many areas and reinforce those in the maritime transport and environment fields. Turkey needs to further modernise its administrative structures and to increase training.

An overview of the situation country by country is contained in **Annex 1**.

## **b) Sector overview**

### **i) The aim of political, economic and monetary union**

The candidate countries have continued to align themselves with the **CFSP** of the Union, demonstrating their will to contribute to effective action in the common foreign and security policy area through political dialogue and concrete actions. The candidate countries all joined the common position on Kosovo, the ban on Yugoslav flights and the oil embargo on Yugoslavia. The candidate countries have succeeded in resolving most border disputes with third countries. Discussions continue between Slovenia and Croatia over Piran Bay. Latvia and Estonia are ready to sign border agreements as soon as Russia is prepared to do so.

EMU is an integral part of the Community acquis. However, a clear distinction should be made between participation in EMU – compulsory for all Member States – and adoption of the euro as a single currency. New Member States are not expected to adopt the single currency immediately upon accession, even though they will be taking part in EMU. There is a risk that the candidate countries will rigidly orient their policies towards compliance with the Maastricht convergence criteria in an effort to adopt the euro at the earliest possible opportunity. Several of them have already expressed an aspiration to do so on or very soon after accession. However, it is essential that they should concentrate on strengthening market principles, progressing with trade integration with the EU while adopting the rules of the single market, as well as carrying out the reforms and liberalisation of financial markets in order to consolidate the well functioning of markets and achieve sustainable macro-economic stabilisation. Attempts at too early adoption of the euro (i.e. before these economies have reached a high degree of sustainable convergence) could be highly damaging for the candidate and ought to be discouraged. In this regard, it would seem that sustainable nominal convergence could not be judged before the economies of the candidate countries have demonstrated their capacity to successfully operate within the single market and liberalised capital movements, as was the case with existing Member States.

EMU implies a gradual development of the economies of candidate countries leading to the final adoption of the single currency. Upon accession they will have the status of Member States with a derogation under the rights and obligations specified under article 122 of the Amsterdam Treaty, i.e. a country which takes part in EMU but which still uses its national currency. This derogation will be granted in the Accession Treaties. The Czech Republic, Estonia, Hungary, Poland, Slovenia, Slovakia, Latvia, Lithuania and Bulgaria should be in a position to participate in EMU as a non-participant in the euro area in the medium term, provided that they continue to pursue both macroeconomic stabilisation and structural reform, and further align their legislation to the acquis in this area. Cyprus and Malta should also be in the position to participate in EMU as non-participants in the euro area, but still need to make substantial efforts to align with the acquis. Those efforts would also be needed in Turkey, together with progress towards macroeconomic stabilisation. The participation of Romania in the third stage of EMU as non-participant to the euro area could pose serious problems due to its precarious economic situation.

For new member states, participation in the euro area will be decided, after accession, in compliance with the conditions for the adoption of the single currency, following the examination of the achievement of a high degree of sustainable convergence, according to the procedure provided in article 121 of the Treaty.

## ii) Adoption of the **acquis**

A solid legal base of **internal market** legislation is in place in most candidate countries. There are elements however of some internal market laws which all candidates have been slow to adopt such as coverage of the utilities sector in public procurement legislation and alignment of VAT and excise rates. Further effort is needed in all countries to align and effectively implement the EC approach to standards and certification. The problems of continued reliance on mandatory certification, delays in adopting product liability legislation, the lack of progress in setting up market surveillance mechanisms and inadequate preparation of the private sector to undertake voluntary certification need to be seriously addressed by all the candidate countries. Some of the candidate countries need to seriously accelerate their efforts to adopt framework legislation and all the candidate countries need to ensure that the related institutional framework (e.g. separation of the legislative, standardisation and accreditation tasks, establishment of market surveillance mechanisms) is put in place.

Although significant progress has been made over the past year in adopting state aid legislation, no country has a fully functioning system of state aid control (i.e. state aid legislation combined with effective monitoring, reporting and enforcement by an independent monitoring authority). A concerted effort is needed in all candidate countries to make the control and monitoring systems operational.

None of the candidates countries are very far advanced in the transposition of **environment** laws. Some progress has been made over the past year by most countries in analysing the challenges and developing strategies together with investment plans for alignment in the sector. Slovenia, Latvia and Lithuania have made notable progress in this regard. Poland, in contrast, does not have an overall strategy and has made little progress in the sector as a whole. However, without additional legislative and implementation effort, all countries will face serious difficulties to achieve significant progress with the environmental **acquis** in the near future. Furthermore, the strategies which have been worked out need to be implemented through commitment of the necessary financial and human resources.

Apart from Hungary and Poland which have made steady progress in the area of **financial control**, all of the candidate countries need to make major efforts to ensure effective financial control. The development of internal control systems requires particular attention.

Progress in the **audio-visual** sector is very limited and few of the candidate countries have fully aligned to the Television without Frontiers directive.

Ensuring high standards of **nuclear safety** throughout the European continent is a top priority for the EU, and in particular the need, as early as possible, to close the oldest Soviet designed reactors which cannot be upgraded to European safety levels. As requested by the European Council in Cologne the Commission has examined this issue with particular care in this year's Regular Reports. There are non-upgradeable reactors in three candidate countries –

Units 1 and 2 at Ignalina in Lithuania, Units 1-2VI at Bohunice in Slovakia and Units 1-4 at Kosloduy in Bulgaria. The Commission has been involved in an intensive dialogue with each of these countries with the aim of securing agreement on closure dates for these reactors. The Commission has stressed the willingness of the EU and wider international community to provide financial and technical help to decommission these units.

Subsequently, the Lithuanian government, supported by the Parliament, decided to close Unit 1 at Ignalina before the year 2005. This decision is in line with Lithuania's commitments under the Nuclear Safety Account Agreement. A closure date for Unit 2 will be decided following a national energy strategy review in 2004. However, taking account of the age difference between Units 1 and 2, the Commission expects the closure of Unit 2 to take place by 2009 at the latest.

Similarly the Slovak government decided to close Units 1-2 VI at Bohunice by 2006 and 2008 respectively. Slovakia does not have any international obligations under the Nuclear Safety Account Agreement and has invested heavily in recent years in safety upgrades for these reactors.

Both governments have taken farsighted and courageous decisions which will help ensure higher levels of nuclear safety for their own populations and their neighbours. The Commission recognises that these decisions were taken in a spirit of European integration and that they constitute a significant step in preparation for EU membership. The Commission has undertaken to propose additional financial assistance under the Phare programme to help with the costs of decommissioning. It also intends to organise fund raising meetings with the international community, particularly with those who are involved in the Nuclear Safety Agreement, to mobilise additional finance for this process.

Given the important decisions made by these governments in the context of their preparations for joining the EU it is all the more disappointing that the Bulgarian government has still not been prepared to commit itself to the closure of Units 1-4 at Kosloduy. The Commission will continue to work with the Bulgarian authorities to identify a realistic closure timetable.

Progress is uneven in the field of **justice and home affairs**, across sectors and in relation to adoption and implementation. Taking into consideration the key areas of immigration, asylum, police, drugs, border control, the fight against corruption, penal and civil judicial co-operation as well as general judicial reform, Lithuania, Estonia, Slovenia, Latvia and Bulgaria have made important progress. Although starting from a higher level of alignment, Hungary has achieved only limited progress. Poland, the Czech Republic and Slovakia have progressed at a slow pace. Some progress has been made in Romania but much remains to be done. Cyprus is relatively advanced in the justice and home affairs field but needs to enhance efforts in most areas. The progress of Malta and Turkey is difficult to assess at this stage.

In the **social and health sector**, adoption of the *acquis* is rather slow. In the face of continued low standards of living, increasing inequalities and restricted access to health care, alignment with the *acquis* is often a lesser political

priority than reform of health care and pension systems, which are necessary for viable social protection. Social dialogue is developing at a slow pace. In view of the negative consequences this could have for social cohesion, it is important that the candidates step up their efforts in this area.

None of the candidate countries have demonstrated significant progress in the area of **agricultural structural reform**. This is particularly the case in Poland and in Romania where short-term palliative solutions have been adopted with insufficient attention being paid to the necessary longer term restructuring. While progress has been made in the transposition of the veterinary and phytosanitary acquis in most countries, substantial efforts and investments are needed for example to upgrade laboratories and strengthen border inspection posts so as to ensure the effective enforcement of the legislation. All of the countries need to adopt a more comprehensive approach to aligning their policies and practice to those of the EC in areas such as market and price organisation, rural development, land structure and ownership etc.

## **IV. AN ACCESSION STRATEGY**

### **1. Introduction**

The Commission considers that the time has come to inject new momentum into the enlargement process and give a strong signal of its determination to bring this process forward as quickly as possible. This will also enhance the confidence of candidate countries in their accession prospect.

Therefore, it proposes a strategy for the opening and the conduct of accession negotiations destined to ensure that they will progress in parallel with the candidate countries' preparations for membership. This approach will give a better overview of actual overall progress, stimulate the candidates' preparatory efforts and allow each country to proceed towards accession as quickly as is warranted by its efforts to comply with all Copenhagen criteria.

### **2. The opening of accession negotiations**

#### **2.1 The options**

Taking account of the situation described in each Regular Report and of the need to maintain momentum in the overall accession process, the Commission has examined the following options for the opening of the accession negotiations:

(a) to continue strictly with the method adopted by the European Council in Luxembourg and Cologne, that is to recommend the opening of negotiations only with countries which have made sufficient progress in preparation for membership to be in a position to satisfy the conditions for membership in the medium term. This has the advantage of continuing to pursue the same objective methodology established by the European Council applied to a number of the current candidates assuring that each country invited to begin negotiations has met the same minimum standard of preparation.

(b) to recommend opening of negotiations with all countries which meet the Copenhagen political criteria. This option has the advantage of recognizing the widely felt need for new momentum in the enlargement process taking account of the dramatic changes in the European political landscape, mainly as a consequence of the crises in the Balkan region. These crises have emphasized the essential contribution, which the European integration model has made and must continue to make to ensure peace and prosperity in Europe.

Opening of negotiations with all candidates that have fulfilled the political Copenhagen criteria, together with the development of a reinforced strategy towards other European countries, would offer a strong signal of the EU's determination to shoulder its responsibilities in line with the European Council's statement of December 1997: "With the launch of the enlargement process we see the dawn of a new era, finally putting an end to the divisions of the past. Extending the European integration model to encompass the whole of the continent is a pledge of future stability and prosperity."

Whereas the first option has the disadvantage of not taking adequate account of the changed political landscape in Europe, the latter entails a number of risks including:

- creating a precedent for future accessions. Beyond the thirteen countries currently in the enlargement process the EU has offered the prospect of future membership to certain other European countries. If the practice of entering into negotiations with countries that do not meet a sufficient level of preparation is established now, it might be difficult to follow a different practice later.
- Risk of loss of momentum for reform. In its first Regular Reports the Commission highlighted the loss of momentum in the Czech Republic and Slovenia and attributed it partly to a certain “relaxation” once negotiations had been opened. Faced with this analysis, Slovenia has made efforts to regain momentum but the situation in the Czech Republic has not yet improved substantially. Countries such as Latvia, Lithuania, Slovakia and Bulgaria have made great efforts to accelerate legislative alignment in order to be admitted to negotiations. A risk of slow down cannot be excluded if negotiations are opened before necessary preparations have been made.
- Beginning a process of very long negotiations. The practice followed previously by the Commission has been to recommend the opening of negotiations only when there is a realistic prospect of the relevant country being able to meet the Copenhagen criteria in the medium term. To open negotiations without this perspective may condemn both parties to long and frustrating negotiations and risk putting pressure on the EU to conclude unsatisfactory accession terms. This risk must however be weighed against the tensions that may arise if negotiations are postponed too long.

## **2.2 Recommendations**

Having examined the different options, the Commission has decided to make recommendations to the European Council that combine the best features of both approaches. This approach is designed

- to act according to the political imperative for the EU to make a decisive contribution to stability and prosperity on the European continent by reinforcing the inclusive nature of the accession process;
- to allow each applicant country to progress through the negotiations as quickly as is warranted by its own efforts to prepare for accession ;
- to counter the risk of loss of momentum in the applicants’ reform process and thus to ensure that a well prepared enlargement of the EU can take place as quickly as possible;

- to stress the absolute priority of the Copenhagen political criteria before beginning and continuing accession negotiations with any candidate country;
- to ensure that candidate countries fulfill all Copenhagen criteria before being admitted as member states to the EU.

Stressing the importance of these objectives and precautions, the Commission considers that:

- negotiations should be opened in 2000 with all candidate countries which meet the political criteria for membership and have proved to be ready to take the necessary measures to comply with the economic criteria, i.e. Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia.
- in view of the paramount importance of nuclear safety, the opening of negotiations with Bulgaria should be conditional on a decision by the Bulgarian authorities before the end of 1999 on acceptable closure dates for units 1-4 in the Kozloduy nuclear power plant and upon a confirmation of the significant progress accomplished in the economic reform process;
- the opening of negotiations with Romania should be conditional on the confirmation of effective action announced by the Romanian authorities to provide adequate budgetary resources and to implement structural reform of child care institutions before the end of 1999. It is also conditional upon a further assessment of the economic situation before negotiations are formally opened, in the expectation that appropriate measures will have been taken to address the macro-economic situation;

The Commission is furthermore of the opinion that the opening of the negotiations should be determined on the basis of the principle of differentiation, in particular to take account of the fact that some candidates are not immediately in a position to meet the Copenhagen criteria in the medium term.

The principle of differentiation was already established by the EU for the conduct of the accession negotiations. In its opening statement at the first negotiating sessions in March 1998, the EU stated that “the pace of progress will depend on the individual situation of each applicant”. This principle should now also be firmly applied each time when deciding which and how many chapters of the EU acquis will be opened for negotiations thus discontinuing the practice of opening an equal number of chapters for all candidates. The objective must be to ensure that the negotiations proceed in parallel with the candidates’ progress in preparing for membership. Accession treaties negotiated with insufficiently prepared countries would be exposed to the risk of not being approved.

This means that the EU should respond to negotiating positions presented by applicant countries by making an explicit announcement in the Accession Conferences as to the chapters for which it accepts the opening of negotiations

with each individual country. To this effect the Commission will submit proposals to the member states for the definition of the EU position taking into account the expected difficulty of the negotiating substance and the progress under the Copenhagen criteria of the relevant applicant country.

Based on its assessments in the present Regular Reports, the Commission considers that a limited number of chapters can be opened for all candidates entering the negotiations in 2000. The number of chapters will vary according to the state of preparation of each individual candidate. In order to help Bulgaria and Romania to accelerate their preparations for accession and, if possible, to accelerate the opening of negotiating chapters the Commission will examine with these countries how better to focus on key problem areas. This will also help to target the available technical and financial assistance on these areas.

### **3. The conduct of negotiations**

#### **3.1 Experience up to date**

The principle of differentiation for the conduct of negotiations has already resulted in visible differences among negotiating candidate countries. Although the same number of chapters was opened for all six candidates in response to their negotiating positions, the number of chapters provisionally closed varies by country (from seven to ten chapters). This development is bound to intensify as negotiations progress and move into more difficult areas of EU acquis.

The decision to close chapters provisionally has generally been taken according to the following criteria: full acceptance of the EU acquis, absence of requests for transitional periods, satisfactory answers to EU questions. Moreover, the EU, while accepting provisional closure, has insisted on the global character of the negotiations (nothing is agreed until everything is agreed), as well as on the need for satisfactory progress in the preparations for accession in each of the candidate countries. In this respect the EU side announced that it will monitor progress under each chapter throughout the negotiations.

The experience of the present negotiations shows that candidates attach increasing importance to the provisional closure of negotiations. Underlining the political urgency to show progress, some even suggest closing all chapters provisionally once they have been addressed during the negotiations. They propose that any difficulties identified should be put aside and dealt with later in a global negotiating package.

#### **3.2 Revised procedure for provisional closure of chapters**

In the light of this experience, the Commission considers that the EU should resist a development towards a situation in which political pressure to conclude negotiations might overshadow the need for well-prepared accessions. Ideally, negotiations should inject increased momentum into the

candidates' preparations for membership. The procedure for provisional closure of chapters not directly linked with the state of preparatory progress, as applied until now, may have the contrary effect. The Commission therefore proposes to revise this procedure.

The Commission has already announced that chapters provisionally closed must be reopened from the beginning of 2000 in order to allow newly adopted EU acquis, not yet addressed during the negotiations, to be included. The Commission proposes to use this occasion to establish a strong link between the negotiations and the preparatory process. No chapter would thus be provisionally closed (or closed again after re-opening) unless the EU is satisfied that the candidates' preparations are in line with their commitments in terms of preparation for accession.

The Commission considers that all the necessary monitoring tools are already in place: screening reports, the Europe Agreements, the Regular Reports, Accession Partnerships and National Programmes for the Adoption of the Acquis. These provide the elements for an effective monitoring system and should now be linked with the accession negotiations. The results of monitoring should be fully taken into account when the EU decides whether to provisionally close a chapter. Moreover, the Commission intends to use the Regular Reports, comparing progress with commitments, to assess whether a chapter that was provisionally closed should be reopened.

### **3.3 Advantages of the new procedure**

This new procedure, in conjunction with the one proposed for the opening of negotiating chapters, will have the advantage of

- presenting an objective picture of actual overall progress achieved. As a result there will be a strong incentive for the candidates to intensify their preparations for membership. This will also stimulate an objective public debate in these countries about priorities for reform and assistance;
- allowing differentiation to be applied on an objective basis to all candidate countries. Accordingly, each country will be able to proceed on merit, including the possibility for those who join the negotiations from 2000 to catch up with the others. At the same time those countries that are today not in a position to fulfil all Copenhagen criteria in the medium term or which might fail to fulfil commitments regarding their preparation would proceed at a slower pace;
- ensuring parallelism between negotiating and preparatory progress, reducing the risk that accession treaties may not be approved.

### **3.4 Transition periods**

In relation to the substance of the negotiations, it should be clarified, what constitutes a 'reasonable' transition period. The difference between this enlargement and some others is that following the completion of the Single

Market the EU operates without border restrictions. In Agenda 2000 the Commission took the view that transition periods – but not derogations – may be agreed in duly justified cases and that they should ensure the progressive integration of the new members into the EU within a limited period of time.

Now that negotiations are underway the Commission considers that the EU should define its policy on transition periods more explicitly. It feels that it is necessary to make a distinction. For the areas linked to the extension of the Single Market regulatory measures could be implemented quickly. Any transition periods should therefore be few and short. For those areas of the acquis where considerable adaptations are necessary and which require substantial effort, including important financial outlays (in areas such as environment, energy, infrastructure), transition arrangements could be spread over a definite period of time provided candidates can demonstrate that alignment is underway and that they are committed to detailed and realistic plans for alignment, including the necessary investments.

#### **4. Target dates**

The proposed approach for the opening and the conduct of negotiations will also create a firmer basis than is available today for setting target dates for concluding negotiations with, or for accession of, individual candidate countries. The Commission welcomes the fact that some candidates have already set themselves such dates. This gives a clear indication of their determination and provides a framework for their preparations for membership. For the EU to consider setting target dates, it should first have a fuller assessment of each candidate's situation both in the negotiations and in preparations for membership. Only then can it ensure that any target dates will be realistic and have the envisaged dynamic effect on the candidates' preparatory efforts and on the enlargement process as a whole. The differentiated approach recommended above will facilitate the establishment of such an assessment.

In the meantime the EU should once more stress its own commitment to readying itself for enlargement. It has done so by accepting at the European Council in Berlin the working hypothesis of enlarging the EU during the period 2000-2006 and by reserving corresponding budgetary appropriations. It has also done so by declaring its intention, i.a. at the Cologne European Council, to address its institutional reform as a priority before the first accessions take place.

The Commission considers that the process of institutional reform must be oriented in such a way that the very substantial changes that are necessary as a condition for enlargement will be in force in 2002. At the same time the Commission considers it possible to conclude negotiations with the most advanced candidates in 2002. Accordingly, the three conditions that are necessary for deciding on the first accessions would be fulfilled, i.e.

- financial conditions
- institutional reform
- conclusion of negotiations

The Commission therefore recommends to the European Council in Helsinki to commit itself to be able to decide from 2002 on the accession of candidates that fulfil all necessary criteria.

## 5. Turkey

The European Council in Luxembourg confirmed Turkey's eligibility for accession to the EU and stressed the importance of drawing up a strategy to prepare Turkey for accession by bringing it closer to the EU in every field. At Cardiff the European Council welcomed the Commission's proposals for a European Strategy which provides the platform for developing the relationship on a sound and evolutionary basis. This strategy includes development of the possibilities afforded by the Ankara Agreement, intensification of the Customs Union, implementation of financial co-operation, approximation of legislation to the Union *acquis* and participation in certain Community programmes and agencies. In October 1998 the Commission adopted two draft-regulations designed to underpin this strategy with a financial envelope of €50 million per year.

Turkey has expressed its wish to be a candidate country and should now be considered as such. However, negotiations can only be opened once the political criteria are met. Meanwhile, the following steps should be taken, building on the European Strategy, to stimulate and support reforms in Turkey:

- enhancing political dialogue, with particular reference to the issue of human rights, and providing the option of association with the common positions and actions taken under the CFSP.
- co-ordinating all sources of EU financial assistance for pre-accession within a single framework
- the possibility for full participation in all Community programmes and agencies
- adopting an Accession Partnership combined with a National Programme for the adoption of the Acquis
- establishing mechanisms similar to those which operate under the Europe Agreements to monitor implementation of the Accession Partnership
- with a view to harmonising Turkey's legislation and practice, beginning a process of analytical examination of the *acquis*

## V. THE ENLARGEMENT PROCESS AND NEIGHBOURING COUNTRIES

### *1. Overall benefits of enlargement*

The enlargement process is vital to securing political stability, democracy and respect for human rights on the European continent as a whole. It creates opportunities for growth, investment and prosperity which will benefit not only current and future Member States of the EU but also the wider international community.

The intensive technical and financial assistance which is being provided to the candidate countries of central and eastern Europe will help to consolidate economic reform and strengthen business by creating a supportive, transparent regulatory environment. Alignment with the rules of the EU's internal market and the adoption of legal framework containing trade and investment rules is already paying dividends by attracting investment. This process of progressive alignment with the EU's regulatory framework brings benefits to all economic operators, including those from outside the EU and the candidate countries.

Enlargement will bring an internal market of over 500 million consumers and an open, border-free area where goods and services can circulate freely. Instead of having to deal with many different rules and regulations non-EU manufacturers and service providers will only need to comply with EU standards to sell their goods and services throughout the expanded internal market. Third country companies already benefit from the positive investment climate created by the Europe Agreements.

Enlargement will also enhance the international community's ability to manage trans-national issues such as environmental pollution, the fight against organised crime and corruption and illegal trafficking.

The process of EU enlargement is fully compatible with the objectives of the new WTO Round. It acts as a force for opening markets and ensuring non-discriminatory rules for trade and investment and reinforces the efforts undertaken within the WTO to further liberalise trade in goods and services.

### *2. Neighbours of the enlarged Union*

The preparations for accession of the 10 candidate countries in Central and Eastern Europe, Cyprus, Malta and Turkey should be seen in the context of intensifying relations with other neighbouring countries. The present enlargement process will have a profound impact on the EU's relations with the countries of the former Yugoslavia and Albania as well as on the EU's neighbours to the east, in Russia and Ukraine for example, and to the south.

The enlarged Union will need deep relationships with its immediate neighbours. The future borders of the Union must not become the dividing line between plenty and poverty in Europe. The EU should therefore have distinctive strategic partnerships with these neighbouring countries.

## **Former Yugoslavia and Albania**

The multiplicity of initiatives in the Western Balkans has created confusion. It has also diluted the influence of the EU in the region. As a first step the EU should work, through the Stability Pact, to streamline and focus the maximum international effort.

In the longer term the EU can best contribute to stability in the region by drawing it closer to the perspective of full integration into its structures, and should confirm that the countries of the former Yugoslavia and Albania have the ultimate vocation to become members of the European Union. It should further develop accession criteria, building on those defined at Copenhagen, which would make Union membership conditional not only upon the principles of Article 6 TEU, but upon

- mutual recognition of each other's borders;
- settlement of all outstanding issues relating to the treatment of national minorities;
- establishment of a regional organisation for free trade and economic co-operation as a basis for closer integration into the Union. The bilateral Stabilisation and Association Agreements should make association status conditional upon membership of that organisation which would also encourage closer political co-operation between these countries. Inter-institutional links between the EU and the regional organisation would constitute a basis for gradual alignment with Community legislation and pre-accession strategies for the individual countries.

The EU, for its part, should encourage regional integration by contributing to an economic development fund, managed jointly by the EU and the countries of the region, destined for big infrastructure projects and institution building.

## **To the East**

The EU's relationship with Russia, as with the Ukraine, is fundamental, and will shape the destiny of the European continent. The EU must also develop fuller relationships with the countries of the Caucasus.

The Partnership and Cooperation Agreements are an excellent basis upon which to build. The new instrument of the Common Strategy provides a unique way of developing such partnerships. The EU has already agreed a Common Strategy with Russia and will do so for Ukraine at the Helsinki European Council.

## **To the South**

The EU's relations with the countries to the South and East of the Mediterranean are of a strategic importance which extends far beyond trade and assistance programmes. They should include, for example, common

procedures in the fight against organised crime and drug trafficking; a common strategy towards migration; and common environmental policies.

The Union should make full use of the Barcelona process, complete its offer of Association Agreements and prepare to make a substantial contribution to ensure the success of the final status talks in the context of the Middle East peace process. But we also need to give fuller expression to our historical and political ties with the Maghreb countries. The EU must contribute to stability on the African as well as the European continent.

## VI. FORMAL CONCLUSIONS

In the light of the above the Commission recommends to the European Council to conclude that:

- accession negotiations will be opened in 2000 with all candidate countries that have fulfilled the Copenhagen political criteria and have proved to be ready to take the necessary measures to comply with the economic criteria, i.e. Bulgaria, Malta, Latvia, Lithuania, Romania and Slovakia;
- the opening of negotiations with Bulgaria will be conditional upon a decision by the Bulgarian authorities, before the end of 1999, on acceptable closure dates for Units 1-4 in Kozloduy nuclear power plant, and upon a confirmation of the significant progress accomplished in the economic reform process;
- for Romania, the opening of negotiations will be conditional on the confirmation of effective action announced by the Romanian authorities to provide adequate budgetary resources and to implement structural reform of child care institutions before the end of 1999; it is also conditional upon a further assessment of the economic situation before negotiations are formally opened, in the expectation that appropriate measures will have been taken to address the macro-economic situation;
- the nature and the number of negotiating chapters to be successively opened with each candidate country will be determined by the EU applying the principle of differentiation, i.e. taking full account of each candidate's progress in preparing for membership under the Copenhagen criteria;
- on this basis, the Commission will recommend, during the successive phases of the negotiations, the chapters to be opened with each of the candidates. A limited number of chapters will be opened for all candidates entering into the negotiations in 2000. The number of chapters will vary according to the state of preparation of each individual candidate;
- the chapters already provisionally closed in the ongoing negotiations will be reviewed, as agreed, in order to allow due account to be taken of newly adopted *acquis*. Provisional closure of chapters will henceforth be decided taking full account of the result of negotiations and the degree to which candidates have fulfilled their commitments to make progress in their preparations for membership;
- the process of institutional reform must be oriented in such a way that the very substantial changes that are necessary as a condition for enlargement will be in force in 2002, and to commit itself to being able to decide from 2002 on the accession of candidates that fulfil all the necessary criteria;

- to progressively reduce current restrictions on trade in agriculture with the candidate countries so as to liberalise this trade, on condition of reciprocity, taking into account the latest CAP reform (Agenda 2000), the diverse agricultural structures of the candidates, and the WTO context; the issue of EU export subsidies on goods going to candidate countries needs to be re-examined;
- to review the situation in each candidate country, during 2000, from the point of view of the application of the competition and internal market rules with a view to refraining from using commercial defence instruments in industrial goods, if sufficient progress has been made
- Turkey should now be considered as a candidate country, although there is no question of opening negotiations at this stage. In order to enable it to benefit from that status the following actions should be undertaken:
  - enhancing political dialogue, with particular reference to the issue of human rights, and providing the option of association with the common positions and actions taken under the CFSP;
  - co-ordinating all sources of EU financial assistance for pre-accession within a single framework ;
  - the possibility for full participation in all Community programmes and agencies;
  - adopting an Accession Partnership combined with a National Programme for the adoption of the Acquis;
  - establishing mechanisms similar to those which operate under the Europe Agreements to monitor implementation of the Accession Partnership;
  - with a view to harmonising Turkey's legislation and practice, beginning a process of analytical examination of the acquis.

### Country Overview

The progress in both adoption of legislation and strengthening administrative and judicial capacities is set out below. From this assessment and taking the applicants in the order of their applications for membership, it emerges that:

**Hungary** continues to progress in legislative alignment in most sectors. Notable progress has been made by adopting state aids and self-employment laws, further aligning public procurement and intellectual property legislation and continuing to implement the new approach in the standards and certification areas. However, further refinement of public procurement legislation is needed with respect to utilities and national preference provisions. The maintenance of discriminatory provisions in the excise area detracts from important progress which was made in overall legislation alignment in the VAT/excise area. Further alignment is needed in the audio-visual areas as concerns European works and satellite broadcast monitoring. The pace of alignment is slow with respect to justice and home affairs (border management and asylum), agriculture, labour and health and safety at work. Little progress has been made in the environment area and no progress in customs. The inertia in these important sectors is worrisome given the size of the transposition task which remains to be done. Hungary has made steady progress in building up its administrative capacity to apply the acquis. Steps have been taken toward general public administration reform and continued emphasis has been placed on the development of specific European policy and law training courses throughout the administration and in the judiciary. Most of the key institutions needed for implementation of the internal market are in place. Nonetheless the administration still needs to be strengthened in specific areas such as state aid control, market surveillance and veterinary and plant health. Hungary needs to allocate sufficient budgetary and administrative resources to regional development and environment and improve its capacities to use, monitor and control EU financial assistance. There is room for granting further independence to regulatory authorities such as the Government Control Office and the Communications Authority.

Hungary has satisfactorily addressed most of its short term Accession Partnership priorities with the exception of administrative strengthening in regional development, steel sector restructuring and alignment in the environment sector.

**Poland** concentrated its political and administrative energies on domestic reforms and, as a result, has not progressed significantly in the process of legislative transposition. Some progress has been made in strengthening administrative capacity, but strategic preparation of alignment encompassing a simultaneous preparation of draft laws and planning for the strengthening of related administrative capacity is lacking in most sectors. While Poland's track record in alignment and implementation in the certain areas such as free movement of capital and services and financial control is good, the adoption of key internal market legislation (new approach legislation in the standards

and certification area, intellectual and industrial property, public procurement), free movement of persons (mutual recognition of diplomas) and state aids has not progressed significantly. There has been little progress in approximation in environment. The inertia in structural reform in the agricultural sector does not augur well for smooth adoption of the Common Agricultural Policy. Concerning administrative capacity, Poland has made progress in implementing the territorial and administrative reform and in the adoption and application of the new Civil Service Law. These are important steps, supporting the functioning of the public administration at all levels. Although considerable efforts have been made in the judiciary, the effectiveness of law enforcement bodies including police and border guard services require substantial improvement. Improvements have been made in the public procurement administration. There has also been some progress in separating of the legislative, standardisation and accreditation tasks in the field of standardisation, but a lot remains to be done in this sector. Particular attention has been paid to strengthening capacity in the regional policy and financial control area. Continued efforts are needed to strengthen capacities in intellectual property protection, state aids, customs, telecommunications, energy, environment, taxation and fisheries.

Poland has partially addressed the short term Accession Partnership priorities in areas such as economic reform, industrial restructuring (particularly as regards coal and steel), justice and home affairs, the internal market and regional development. However, these priorities still need to be more fully dealt with and priorities in the agriculture, environment and institutional and administrative capacity priorities remain largely unmet.

**Romania** has made some progress in legislative alignment with laws being adopted in the areas of state aids, public procurement and banking supervision. Some steps have been taken in alignment in the area of standards and certification but the lack of framework legislation impedes substantial progress in this area. There has been little progress with regard to intellectual property and data protection. Romania has taken important steps to align with the transport acquis, although greater attention needs to be paid to road and maritime safety. Progress is very limited in the environment field: Romania does not seem to grant the sector necessary priority and there are serious problems in the air, water and waste management sectors. There is a need to develop realistic cost assessments and investment plans. Alignment in certain sectors (industry and agriculture) is impeded by fundamental weaknesses in the foundations on which EC law is premised such as a competitive private sector and a functioning land market and by the continued involvement of the state in regulatory activities in which the acquis requires an independent approach. Concerning justice and home affairs, limited progress has been made in border management, the police and immigration but work needs to be accelerated in the areas of asylum and drugs control. Although efforts have been stepped up, implementation and enforcement capacities are not yet sufficiently developed to ensure the effective application of the acquis. Public administration reform has been identified as a priority, but has not started in earnest. Some key institutions (e.g. for public procurement) still need to be set up and major efforts are needed in many sectors (environment and financial

control) to bring the administration to a required level of competence. There is a general need to ensure independence of regulatory and supervisory bodies, including the Central Bank. While some measures have been taken to reinforce the judiciary, it remains weak with a low level of familiarity with EC law and inadequate technical facilities.

While Romania has addressed certain aspects of the administrative capacity (regional development) and the internal market (restructuring of the banking sector, public procurement, state aids) short term priorities of the Accession Partnership, certain aspects of the justice and home affairs (fight against organised crime and corruption, demilitarisation of the police and border control) and environment priorities have not been satisfactorily addressed.

**Bulgaria** has continued legislative alignment at a steady pace in most areas and has made determined efforts in the past year to put in place the key elements of internal market legislation. For example, a new law on public procurement sets out the basic principles of the acquis and there has been legislative progress in the area of standardisation. Substantial improvements can be noted in the fight against piracy and amendments to the copyright law widened the scope of administrative violations and increased the level of fines. Bulgaria has made significant progress in alignment of its audiovisual legislation and is continuing to liberalise its telecommunications market. The new VAT and excise laws have brought the country closer to alignment with the acquis. There has been no significant improvement in the area of state aids. Despite some progress in alignment in agriculture there are problems of implementation, partly due to lack of funding. Veterinary inspection needs to be re-inforced, including at border posts and there is a need to speed up land restitution so as to create an active and transparent land market which can encourage investment in agriculture. Although Bulgaria has taken some steps in energy policy it has made insufficient progress in committing itself to a realistic timetable for the closure of Units 1-4 at Kosloduy nuclear power plant. Important steps have been taken in establishing a basis for regional policy but there has been less progress in the social sector. There has been some legislative progress in environment but the lack of an overall strategy and sectoral strategies which are needed for the identification of investment projects continues to pose problems. Bulgaria has made substantial progress in the area of justice and home affairs, particularly in immigration and justice. Bulgaria has adopted a civil service law and made important progress in establishing the legal framework for setting up the institutions responsible for the application of EU legislation. However, the shortage of human and financial resources has hampered the capacity of these institutions to effectively implement the acquis. It is important that progress be made in setting up financial control mechanisms and transparent public procurement systems, particularly with a view to absorbing increased EU financial resources. In the area of justice and home affairs, Bulgaria needs to sustain progress in improving border management and alignment in the relevant areas of justice and home affairs.

Bulgaria has made progress in meeting all of the short-term priorities of the Accession Partnership except in the nuclear sector.

**Slovakia** has made some progress in legislative alignment and developing the administrative and judicial capacity to effectively implement the acquis. The Slovak Government responded quickly in removing legislation adopted by the previous Government, which was not in line with the acquis and has taken strategic policy decisions, which set a solid basis for legislative and institutional progress. Important progress has been made in the energy sector with the decision by the government to close Units 1-2 VI at the Bohunice nuclear power plant by 2006-2008 respectively. Further progress was made in the adoption of framework legislation in the area of standards and certification, public procurement and state aids legislation. In the area of administrative capacity, co-ordination of EU policy matters has improved, first steps have been to separate the legislative, standardisation and accreditation tasks in the field of standardisation, the laws which have been adopted recently adopted provide for the establishment of key internal market structures and increased attention has been paid to improving capacities in the environmental field. However, the civil service reform law that is needed to lay the foundation for further improvement of administrative capacities in specific sectors of the acquis has not been adopted. In other key areas such as regional development, financial control and justice and home affairs, the establishment of relevant institutions has been delayed. There is a general need to ensure independence of regulatory and supervisory bodies. Given the delays that Slovakia has experienced in its preparations for membership, it is important that the preparation of legislation be closely accompanied by planning for the strengthening of related administrative capacities. Slovakia will need to substantially step up its efforts in the preparation of laws and implementation and enforcement capacities if it wants to keep pace with the other candidate countries.

Slovakia has adequately addressed the political, state aid and internal market short term Accession Partnership priorities. However the administrative capacity and environment areas did not receive sufficient attention.

**Latvia** has made significant and sustained progress in legislative alignment and in setting up necessary implementation structures in most areas of the acquis. However, legislative efforts need to be stepped up in the areas of mutual recognition of diplomas, data protection, telecommunications, agriculture and fisheries, health and safety at work, customs, regional policy and financial control. Latvia has made important progress in strengthening the administration in key internal market areas such as standards and certification, competition and state aids. However, the delays in implementing general public administration reform risk weakening Latvia's capacity to effectively implement the acquis. The knowledge of EC law in the judiciary is limited but efforts have been made to increase training. Independent regulatory authorities need to be established in the telecommunications and energy sectors. Continued attention needs to be paid to reinforcing the customs and tax administration, strengthening the maritime safety inspectorates and setting up appropriate financial control mechanisms.

Latvia has addressed most of the short term Accession Partnership priorities. However, attention needs to be paid to more fully addressing the administrative capacity priority.

Although building on a solid base, the pace of alignment in **Estonia** in key areas of the internal market (standards and certification, intellectual property, data protection, state aid monitoring), veterinary and plant health, agriculture and employment and social affairs has slowed. Of particular concern is the area of standards and certification and the customs sector where efforts are needed to gradually introduce customs duties and the corresponding administration. Estonia has made only limited progress in improving its administrative and judicial capacity. It remains difficult to retain qualified staff and there is a continued need for career development incentives and training in EC law. Serious administrative weaknesses continue to exist in key areas such as standards and certification, state aid monitoring, tax enforcement, maritime transport and employment and social policy. Efforts to strengthen financial control institutions and to develop regional development structures need to be sustained and consolidated in order for Estonia to be in a position to effectively use EU funds.

Estonia has addressed aspects of all of the short term Accession Partnership priorities. However, efforts related to the administrative capacity and internal market priorities need to be enhanced.

**Lithuania** has made good progress in legislative alignment in the internal market, in particular as concerns public procurement, intellectual and industrial property, free movement of capital and services and competition. Further alignment and enhanced monitoring and control in the state aids area is nonetheless necessary. Attention needs to be paid to the enforcement of intellectual property legislation. No progress has been made in the audio-visual area and major efforts are required in the taxation area to bring legislation in line with the acquis. While progress has been made in the agriculture, veterinary and phytosanitary fields, this has not been matched in the fisheries sector. Alignment is proceeding satisfactorily in transport and further efforts should focus on the road transport, maritime safety and aviation acquis. Lithuania has made progress in the environmental field, having produced thorough implementation programmes accompanied by financing plans. Lithuania has made determined efforts in the area of energy policy and decided to close Unit 1 of the Ignalina nuclear power plant before the year 2005, with Unit 2 expected to close by 2009 at the latest.. Little progress has been made in financial control, either legislatively or in setting up the necessary structures. Lithuania adopted a public administration law and set up needed training programmes. Reform of the judiciary continued with, for example, the creation of administrative courts, the reorganisation of the prosecutor's office and reinforcement of the court department in the Ministry of Justice. Most of the important agencies and institutions required to implement the internal market acquis have been set up. Attention needs to be paid however to reinforcing the State Competition and Consumer Protection Office as it is currently under-resourced in relation to the anti-trust, consumer protection and state aid monitoring tasks which have been assigned to it. The

veterinary and plant health administrations have been reinforced and first steps have been taken to set up the necessary institutions to apply the CAP. Institutional capacities in the fisheries and transport administrations are currently insufficient and continued attention needs to be paid to developing both regional policy, customs and financial control capacities. Continued attention is needed to ensure that the impressive progress made in transposition is matched by similar progress in strengthening implementation and enforcement structures.

Lithuania has taken steps to meet most of the Accession Partnership short-term priorities. However, significant efforts are still needed to fully address priorities in the areas of economic reform, internal market and administrative capacity (financial control).

The pace of legislative alignment in the **Czech Republic** has not picked up significantly and progress is uneven across sectors. Alignment is well advanced in the area of standards and certification and some progress has been made in liberalisation of capital markets and in the banking and insurance sectors. In other key internal market areas (e.g. intellectual property, public procurement, data protection, insurance, anti-trust and VAT/excise), legislation is already partially aligned and there has been little or no movement towards completing alignment. The legal framework for state aids is incomplete and the resources committed to the area are insufficient to ensure an effective system of state aid monitoring. Further legislative alignment combined with modernisation of information systems has taken place in the customs sector. Continued efforts are being made to put the necessary structures into place for regional and structural policy. In environment, despite the adoption of a general policy document and some specific laws, effective progress in the sector is impeded by the lack of framework legislation and of an implementation programme with investment planning. With the exception of air transport, alignment in the transport sector has not moved ahead. The pace of alignment in agriculture, veterinary and plant health is slow. No progress was made in the areas of labour legislation and health and safety at work. Other than steps taken in the fight against drugs, efforts in the area of justice and home affairs have stalled. The Czech Republic has taken steps toward general public administration reform and has recently approved a programme for overall reform of the judiciary. Capacities in certain areas of the internal market acquis are well developed and progress has been made in strengthening banking and financial services supervision capacities. State aid monitoring capacities need to be strengthened and independent authorities for data protection and telecommunications still need to be set up. While the veterinary and phytosanitary administrations are being reinforced to meet EC requirements, little progress has been made in setting up the structures necessary for the implementation of the Common Agricultural Policy. Efforts need to be stepped up in general public administration reform and continued attention needs to be paid to border management, enforcement of environment legislation and improving internal financial control capabilities. Initiatives in the fight against organised crime and corruption should also be reinforced. In sum, the pace of alignment needs to pick up substantially across the board and

be accompanied by the establishment and reinforcement of the necessary administrative structures.

The Czech Republic's record in terms of meeting the short term Accession Partnership priorities is not satisfactory. While the Czech Republic met short term Accession Partnership priorities in areas such as economic reform, standards and certification, regional development and veterinary, priorities in the areas of industrial restructuring, administrative capacity (strengthening environment and agricultural institutions), the internal market (alignment of intellectual property and state aid legislation), justice and home affairs (border enforcement) and environment have not been adequately dealt with.

**Slovenia** significantly accelerated its overall approximation effort. Key parts of internal market legislation (standards and certification framework legislation, product liability legislation, free movement of capital, banking, data protection, company law, VAT and anti-trust) have been adopted. Continued attention needs to be paid to alignment in the areas of public procurement, intellectual and industrial property, insurance and state aids. Progress has been made in the veterinary, justice and home affairs, regional development and environment sectors. Sustained progress continues to be made in the employment and social affairs area where the level of alignment to the *acquis* is already high.

Slovenia has made little progress in general public administration and judicial reform. However, the sector legislation (standards and certification, justice and home affairs, regional policy) which has been adopted recently provides for the establishment of many of the necessary administrative structures. It is important that Slovenia now sets up these institutions with adequate resources, including sufficient numbers of trained staff. Steps have been taken to consolidate institutional capacity in the competition, employment and social affairs, agriculture and customs areas. Continuing attention needs to be paid to strengthening of the environment, taxation, state aids and justice and home affairs administrations. Appropriate supervisory and regulatory authorities need to be established for public procurement, energy and telecommunications.

Slovenia has met most of its short term Accession Partnership priorities. Internal market legislation has been adopted, measures have been taken to clarify property legislation, progress is being made in transposition in the environment field and recently adopted legislation provides for many of the institutions needed to implement the *acquis*. However, the short term Accession Partnership priorities have only been partially met in the areas of banking and insurance and concerning administrative and judicial capacity (adoption of a civil service law, land registration, financial control).

**Malta's** progress has been limited. This is due in part to the short period of time between the publication of a report updating the Commission Opinion on Malta's application for membership in February 1999 and the current Report. However, apart from alignment and implementation in the field of free

movement of services, there has been little progress in the adoption of key internal market legislation (intellectual and industrial property rights, data protection, free movement of goods, free movement of capital, free movement of persons) and competition laws (state aids control, anti trust, state monopolies of a commercial character). Industrial restructuring still needs to be addressed. Malta needs to accelerate alignment in customs, employment and social policy and maritime transport. No progress has been achieved in the environmental sector either in terms of transposition or implementation/enforcement. Institutions still have to be set up in the areas of environment, customs, consumer policy, fisheries, maritime transport and regional policy. Administrative capacity needs to be strengthened across the board.

**Cyprus** has made some progress in legislative alignment. However, a substantial amount of legislation remains to be transposed. This is of particular concern in the environment, social policy and justice and home affairs areas where delays in the adoption of legislation can have a knock-on effect on enforcement, especially as the dates foreseen for transposition are just before the target date Cyprus has set for accession. Key internal market legislation such as the “New Approach” framework law for standards and certification, fiscal measures and the abolition of the interest ceiling await approval. The recent establishment of a parliamentary fast track procedure has already improved the rate of legislative adoption and should contribute to speeding up transposition. Concerning administrative capacity, whilst starting from a good base, Cyprus needs to create institutions in the areas of telecommunications, free movement of goods and justice and home affairs. Further re-inforcement is needed in the maritime transport and environment sectors.

**Turkey** continues to comply with most of its obligations under the Customs Union. Additional efforts should be made in order to reach full compliance with the acquis notably in the competition and customs fields. In most of the areas identified in the European strategy, alignment efforts have continued. The administrative capacity to apply the acquis in the context of the Customs Union remains very satisfactory. However, Turkey needs to further modernise its administrative structures and to increase staff training.