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REGULAR REPORT
FROM THE COMMISSION
ON
SLOVENIA'S
PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

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

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European candidate State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*.”
“In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating candidate States' ability to meet the economic criteria and fulfil the obligations deriving from accession.”

The European Council in Vienna invited the Commission to present its further progress reports with a view to the Helsinki European Council.

This Regular Report on Slovenia follows the same structure as the Commission's 1997 Opinion. It

- describes relations between Slovenia and the Union, particularly in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)
- assesses Slovenia's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)
- addresses the question of Slovenia's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union. This part gives special attention to nuclear safety standards as underlined by the Cologne European Council.

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

The report takes into consideration progress since the 1998 Regular Report. It looks at whether intended reforms referred to in the 1998 Regular Reports have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which examines the extent to which Slovenia has addressed the short term priorities and started to address the medium term priorities set out in the Accession Partnership.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the last Regular Report, the economic assessment is based on a longer term evaluation of Slovenia's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. This approach ensures equal treatment for all the candidate countries and permits objective assessment and comparison between countries in terms of concrete progress in preparation for accession.

This report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis*, the information provided in the context of the analytical examination of the *acquis* (screening) and in the negotiations were additional sources of information. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission also drew on assessments made by various international organisations and in particular on contributions from the Council of Europe, the OSCE and the international financial institutions as well as non-governmental organisations.

¹ For the European Parliament the rapporteurs are A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens, B. Malone

b) Relations Between the European Union and Slovenia

Developments under the EU-Slovenia Europe Agreement (including bilateral trade)

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

The first Association Council met in Luxembourg in February 1999 and the first Association Committee took place in Ljubljana in March 1999. The system of subcommittees, instituted under the Cooperation and Interim Agreements, was adapted to the legal framework of the Europe Agreement and functions regularly as a forum for technical discussions.

The founding session of the Joint Parliamentary Committee between the Slovene National Assembly and the European Parliament took place in December 1998 in Strasbourg. Its second session was held in March 1999 in Ljubljana.

In 1998, EU exports to Slovenia amounted to €6.7 billion and Slovene exports to the EU to €5.2 billion, with Slovenia having a deficit of €1.5 billion. This represents an increase of 6% in EU exports and 12% in Slovene exports as compared to 1997. In 1998, the EU accounted for 65.5% of total Slovene exports, and for 69.4% of total Slovene imports. The most important Slovenia's export to the EU were machinery and electrical equipment (22% of the total), transport equipment (16% of the total) and textiles (13% of the total). The most important Slovene imports from the EU were machinery and electrical equipment (25% of the total), transport equipment (15% of the total) and base metals (11% of the total).

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture.

There are no anti-dumping measures in force against imports from Slovenia. An investigation, against stainless steel heavy plates originating in Slovenia was initiated in September 1998. However in March 1999 the anti-dumping complaint was withdrawn.

In May 1999, following a decision of the Association Council, Slovenia was included to participate in the Community programmes Leonardo da Vinci, Socrates and Youth for Europe.

Accession Partnership/ NPAA

An Accession Partnership was adopted in March 1998. Its implementation is reviewed in chapter D of this Report.

In May 1999 Slovenia presented a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlines its strategy for accession including how to achieve the priorities contained in the Accession Partnerships (see further chapter D).

Pre-Accession Aid : Phare

In 1999 Phare was the main instrument providing financial assistance to help Slovenia's pre-accession strategy.

The programme is "accession-driven", concentrating support on the Accession Partnership priorities which help the candidate countries to fulfil the Copenhagen criteria. Around 30% of the Phare allocation is used for "institution building" (i.e. helping the countries to improve their capacity to implement the Union *Acquis*; see twinning below) and the remaining 70% is used for financing investments to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and to reinforce economic and social cohesion including the effects of restructuring in important sectors of the economy.

The Phare programme provided Slovenia with €192 million during the period 1992-1999.

The 1999 Phare Programme for Slovenia consists of a national allocation of €31 million, concentrated on the following priorities

- the reinforcement of the institutional and administrative capacity in the fields of agriculture, public finance and financial control, real estate record management (€8 million)
- the adoption of internal market legislation (€3.3 million)
- the support to environmental and transport investments (€9.6 million)
- the support to the social sector (€2.45 million)
- the strengthening of the co-operation in the field of Justice and Home Affairs (border management, fight against organised crime, visa and migration policies, judiciary) (€ 4.9 million)
- participation in various Community Programmes. (€2.75 million)

An additional € 2 million have been allocated for a cross-border co-operation (CBC) programme with Austria, €5 million for the co-operation with Italy.

Slovenia also participates in and benefits from Phare funded multi-country and horizontal programmes such as TAEIX, the Small and Medium-sized Enterprises programme and the Large Scale Infrastructure Facility.

Since 1992 Phare has provided support in addressing key economic transformation and structural reform issues. It has been delivered mainly in the form of technical assistance and used primarily in support of institution building and policy development. Increasingly Phare resources have also been mobilised in the form of support for investment priorities identified by the Government as essential to the fundamental restructuring of the economy over the medium term.

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

Phare has for example played a particularly important role in :

- the environment sector, where Phare co-financed with the Slovene Government an Environmental Credit Scheme (ECS) which was channeled through the existing and well functioning Slovene Environmental Development Fund (EcoFund). The ECS has provided loans at attractive rates in three main areas: improving air quality, improving water quality and water resource management, and minimising the production of solid or hazardous waste. To date, the ECS has provided 19 loans to industries for a total amount of €7.9 million. Each loan consisting of 50% EcoFund and 50% Phare funds.
- the banking sector, where Phare assistance contributed to the restructuring of the two largest state banks, Nova Ljubljanska Banka (NLB) and the Nova Kreditna Banka Maribor (NKBM). The former benefited from Phare aid to restructure its activities and develop its information technology, the latter to restructure and organize its take-over of KBNG, the third state bank. This has led to the governmental decision at the end of July 1999 to start privatisation of both banks.
- the field of enterprise restructuring, where Phare assistance contributed to the establishment of the successful Post privatisation facility (PPF). The PPF targeted companies facing difficulties during the privatisation. Qualified short-term expertise was provided to 53 post-privatised and state-owned companies mainly of medium size and engaged in manufacturing or technical services

Phare Management System

The Phare management system was reformed in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare activities. Phare assistance has been implemented on a decentralised basis since it began. The authorities in the partner country have taken responsibility for contracting and payment of the assistance. However the European Community's Financial Regulation requires that the Commission supervise the contracting procedure and endorse any contracts financed from Phare signed by the partner country before they go into effect. The regulation co-ordinating assistance from Phare, SAPARD and ISPA, which was approved in June 1999 will allow the Commission to move to ex post control of contracting where the Financial Control exercised by the partner country is deemed by the Commission to be sufficient. This possibility will be reviewed on a country-by-country, sector-by-sector basis and introduced gradually.

In the meantime, and in order to streamline the implementation of Phare programmes, the Commission has transferred much of the responsibility for the supervision of contracting to its Delegations in the Candidate Countries.

Phare implementation structures have been rationalised in Slovenia to increase transparency and avoid dispersion of funds. This process increases the responsibility of the Candidate Countries by using, as far as possible, sustainable institutions and implementing agencies which will be responsible for the management and implementation of programmes financed from Community funds after membership.

Since December 1998, a National Fund located within the Slovene Ministry of Finance is the central entity through which Phare and other EU funds will be channeled. The National Fund has overall responsibility for financial management of funds and for ensuring that Phare procurement rules, reporting and financial management are respected, and that there is proper

project information system. A Central Finance and Contracting Unit has also been established within the Ministry of Finance to increase visibility and transparency in financial administration, accounting and payments.

Slovenia's capacity to absorb Phare funds has been satisfactory.

Pre-Accession Aid 2000

During the period 2000-2006, pre-accession aid to the candidate countries will be more than doubled. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agricultural and rural development (SAPARD) and a structural instrument (ISPA), which will give priority to measures similar to those of the cohesion fund in environment and transport.

In the years 2000-2002 total financial assistance available will amount to the following : Phare € 25 million per year, Sapard € 6,6 million per year and Ispa between € 10 million to € 20 million per year.

Twinning

One of the important challenges the candidate countries are facing is the need to strengthen their administrative capacity to implement and enforce the *acquis*. The European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States expertise is now being made available to the candidate countries, in particular through the long-term secondment of civil servants. The strong support and response from EU Member States has meant that twinning partnerships covering a total of 108 projects involving all candidate countries and almost all Member States are presently being implemented.

Phare funding for twinning has so far focused primarily on the priority sectors of agriculture, environment, public finance, Justice and Home Affairs and preparatory measures for the Structural Funds.

For Slovenia, 12 projects have so far been twinned under Phare. Five projects will be carried out in the agricultural sector, including projects on phytosanitary control and veterinary control, led by the Netherlands and Italy respectively. Austria, Germany and France will assist the Slovenian authorities in a project in the environmental sector, while the introduction of structural policy will be prepared by a consortium led by Ireland. France, Italy and the Netherlands will contribute to carrying out tax reform, and Sweden will help improve public sector budget management. Slovenia will be supported by the United Kingdom in the creation of an insurance supervisory authority. Finally, the border control system and problems of migration and immigration policy will be tackled in co-operation with Germany and Austria.

Twinning is foreseen for 18 projects under the 1999 programme covering, apart from a broad range of projects in agriculture, finance, and justice and home affairs, a wider field including a project on health and safety at work and equal opportunities, and support for the strengthening of labour market organisations.

The negotiations/screening process

The analytical examination of the acquis (screening) has been concluded for Slovenia except with regard to the phytosanitary acquis, which is foreseen to be held in autumn 1999.

Since the opening of accession negotiations in March 1998, Slovenia has participated in two rounds of Ministerial negotiations. As a result of these negotiations eight chapters have been provisionally closed (science and research, education and training, small and medium-sized enterprises, statistics, industrial policy, telecommunications, fisheries and consumer protection) while seven (CFSP, company law, free movement of goods, culture and audio-visual policy, external relations, customs union, competition policy) remain open.

B. Criteria for membership

1. Political Criteria

Introduction

In its 1998 Regular Report on Slovenia, the Commission concluded that:

"Developments in Slovenia confirm the conclusion of the Opinion that Slovenia fulfils the Copenhagen political criteria and that its institutions continue to function smoothly.

However, continuing attention needs to be paid to streamlining the judicial and the parliamentary process and to ensuring that Europe Agreement obligations as concerns property ownership are met."

In the 1998 Accession Partnership with Slovenia "further clarification of the situation pertaining to property legislation with particular regard to the right to purchase property for EU citizens" was a short-term priority and the pursuit of "efforts to speed up property restitution" was a medium-term priority.

Recent developments

The centre-right Government formed on 27 February 1997 is still in place with a coalition between the Liberal Democrats (LDS), the Slovene People's Party (SLS) and the Pensioners' Party (Desus). There have been a number of ministerial changes:

A number of changes have taken place in the government during the last year. The following four Ministers changed: Ministers of Defence, Internal Affairs, Economic Affairs and Education and Sport .

The change of Ministers has not resulted however in any major shift in government policy and EU membership remains one of the Government's key objectives. In particular Slovenia has seriously addressed the weakness underlined in the Regular Report of last year in order to reduce the delay in its transposition of legislation in preparation for the EU accession.

On 22 November 1999, local elections were held for municipal councils. The turnout was 55%. The results demonstrated a slight move towards left-of-centre parties compared to 1994 local elections (when the turnout was 62%). On 6 December 1999, the second round of local elections for mayors was held.

1.1. Democracy and the Rule of Law

As mentioned in the last Regular Report, Slovenia has achieved stability of institutions guaranteeing democracy and the rule of law. This section therefore describes only the most significant developments of the past year.

The Parliament

The legislative process continues to be slow: every law still needs three “readings” in Parliament and instabilities within the coalition slow down parliamentary decision making. The proposal for a new Parliament Standing Order, which provides a new parliamentary procedure, prepared in November 1998 has not been approved due to the difficulties in obtaining a 2/3 majority.

However certain organisational measures were adopted in March 1999 which aimed to facilitate a faster adoption of laws according to the plan set out in the NPAA: during sessions of the National Assembly, three days are devoted exclusively to debating draft laws connected with legislative alignment to the *acquis*.

The Executive

The process of transferring additional powers to local authorities was completed following the local elections held on 22 November 1998. However, elections in two municipalities were suspended and will be held later in the year. In the city municipality of Koper, the local elections were not held due to the Constitutional Court ruling of October 1998. The Court established that the municipality in its current shape was not in accordance with the Constitution because it had too much rural area for a city municipality, despite the results of a local referendum held in spring 1998 when the citizens expressed their will to preserve the current form of the municipality. In June the Parliament decided to hold local elections in Koper but the decision was appealed and therefore elections were again suspended by the Constitutional Court. Representatives of the Koper municipality had raised the matter with the Council of Europe and the European Parliament. At the end of September the Court rejected the appeal and it is expected that local elections are finally called before the end of the year.

Public administration reform started in 1997, and is still ongoing. The Government has adopted a decision to employ a further 247 civil servants in 1999, in particular in the fields where the first Commission Regular Report had pointed to the need for significant progress. However not all vacancies have been filled yet (see chapter 4 on administrative capacity).

At the end of 1998, the Government’s Rules of Procedure were amended. Every Slovenian legal act that is amended or any new one that is adopted must include an EC Declaration of Conformity in order to be debated in Parliament. The Government Office for Legislation is in charge of the supervision of this aspect of the legislative process.

The Judiciary

The main problem is still the slowness of the judicial process. However since last year Slovenia started to reduce the number of backlogs, and a special programme for their elimination was introduced by the Government. Amendments were made to the judicial order stipulating that any court registering a one-year delay in dealing with cases, must take appropriate measures (changes in internal organisation of work, extension or rescheduling of working time, etc.).

Following the Government's measure the backlog was reduced by 3.2 % (mainly in District and Local Courts).

However the number of pending cases is still relatively high: at the end of June 1999, it was 566.000. The 64% of pending cases concerns cases on land register and enforcement of decisions. In particular, local courts remain overburdened; they receive the largest amount of cases and have the highest number of pending cases. The Government increased the budget allocation for the infrastructural requirements relating to the work of courts and other bodies in the judicial system, which was in part targeted to help fill vacant posts (see detailed information in chapter 4.2 Administrative and judicial capacity)

Additionally, the following legislative progress has been achieved:

- In October 1998 the amendments to the law on penal procedures related to the use of special investigation methods and means were adopted. They entered into force in January 1999.
- In April 1999 the new civil procedure law was adopted, defining legal and administrative procedures in courts. The aim of the law is, inter alia, to shorten and rationalise legal proceedings in courts and to increase the protection of victims.
- In March 1999 amendments to the penal code were adopted. The amendments stipulate an extension of the maximum allowable prison sentence from 20 to 30 years, and introduce certain other more severe penalties in the field of economic crime, organised crime, and corruption, bribery and money laundering, as well as a number of provisions on illegal immigration.
- In April 1999, the law on the execution of judgements and its implementing rules were adopted. The aim of the law is to nominate a new competent person (not a judge) to perform the execution of judgements. This implies that a new function is to be created, i.e. an independent person with a mandate from the Ministry of Justice.

Some positive steps have also been taken regarding the training of the judiciary. Agreement on setting up a judiciary education centre was reached in October 1998 and first meeting was held in February 1999.

Anti-corruption measures

According to the available statistics and reports, problems of corruption are still relatively limited. There are signs that increasingly serious and organised crime is spreading. However there are not detailed information available concerning bribery cases.

The authorities continued to take measures to further combat corruption. The Parliament adopted amendments to the law on Penal Procedures in October 1998 and amendments to the Penal Code in March 1999 which contain anti-corruption measures. A new on responsibility of legal entities for criminal acts, adopted in July 1999, aims at preventing organised crimes, money laundering and corruption.

Slovenia has ratified already in 1998 the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. In April 1999 Slovenia signed the GRECO

Agreement and in May 1999 the Council of Europe Criminal Law Convention on Corruption. The 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the UN Corruption programme for Drug Control and Crime Prevention should still be signed.

In the context of participation in the Octopus programme, the Government adopted in October 1998 a report about corruption and organised crime in Slovenia.

According to the information provided by Slovenia 10 state employees were denounced in the past two years for accepting bribes, whereas 39 people were denounced for offering bribes. Only two state employees were convicted for corruption in the past two years.

1.2.. Human rights and the protection of minorities

As mentioned in the last Regular Report Slovenia continues to respect human rights and freedoms. The following section only concentrates on subsequent major developments.

Slovenia has already acceded to most of the major international human rights instruments (see annex).

Civil and political rights

Some progress has been achieved to solve the issues of property rights for EU citizens and the "stateless people". However, since the publication of the last Regular Report little concrete progress has been achieved on the issue of denationalisation (the process of returning property to persons dispossessed by the Communist regime) .

The process of denationalisation remains very slow and no major progress can be reported. Amendments to the Denationalisation Law were adopted in September 1998. However some of them (which restricted the eligibility of Slovene citizens and in particular foreigners to claim property) were annulled by the Constitutional Court ruling of October 1998. In value terms, out of the value of total claims, only 33% has been restituted. The majority of cases involving large estates are still outstanding. In terms of surface area, the % of area subject to denationalisation which has been restituted is the following: 34% of the total area of agricultural land 55% of forests, 63%% of the surface area of business premises and 36% of the surface area of building land. To speed up the process and in particular to increase institutional capacity, a special Office for Denationalisation was established in March 1999 to act as co-ordinating body. However, the mandate of the Office remains unclear for the time being. A Land registry exists but its computerisation is still necessary to speed up transfers of property. No progress has been achieved on this issue.

Prison conditions in Slovenia do not present particular problems. No serious violation of human rights and fundamental freedoms have been reported.

Recent developments include the following:

- With reference to the rights of foreigners to purchase property, Paragraph 2 of Annex XIII² of the Europe Agreement entered into force on 1 February 1999 (date of the entry into force of the Europe Agreement). In order to implement this provision the Law to define reciprocity, and the Rules to establish the permanent residence were adopted in February 1999. Other measures, including the training of personnel, were also taken. The first decision on reciprocity has been taken by the Ministry of Justice in September 1999. The procedures to transfer property have not yet been completed for any of the 23 applications received from EU citizens .
- Slovenia has addressed the problem of former Yugoslav citizens without regulated status (5,000-10,000 people) by adopting a law in July 1999 which allows these people to apply for permanent residence in the three-month period following the entry into force of the law.
- A Law on Asylum was adopted in July 1999. The Law stipulates the right to asylum, defines refugee status, outlines co-operation with UNHCR, and assistance to asylum seekers. The Law is based on the 1951 Convention on Human Rights.
- A Law on Foreigners was adopted in July 1999. The law introduces a system of quotas, differentiation between entrance and residence visas, organisational changes, a better monitoring system for migration and better legal rights for and protection of foreigners. It takes into account the EU principles and stipulates that the rights of free movement, entrance and residence will be granted to EU citizens with Slovenia's membership.
- There are still about 8,700 registered refugees, mostly as a result of the Bosnian war. In April 1999, the Law on Temporary Refuge was reactivated by the Parliament, following which the reception of 2.300 refugees from Kosovo was approved (2,477 refugees from Kosovo were already present in Slovenia). After the war, the Government, in cooperation with UNHCR and IOM provided funds for returning refugees to Kosovo. At present there are still about 2500 refugees in Slovenia.
- The Ombudsman continued to perform his work efficiently. His caseload increased by 15% compared to 1998 (which was 16% more than in 1997). Most of the claims concern the length of court and police procedures.

Economic, social and cultural rights

² According to Annex XIII Slovenia is committed:

“I. to take the measures necessary to allow the citizens of the Member States of the European Union, on a reciprocal basis, the right to purchase property in Slovenia on a non-discriminatory basis by the end of the fourth year from the entry into force of the Association Agreement;

II. to grant to the citizens of the EU Member States, having permanently resided on the present territory of the Republic of Slovenia for a period of three years, on a reciprocal basis, the right to purchase property from the entry into force of the Association Agreement”.

The equality of men and women is guaranteed by the Constitution and no major problems exist. According to the Government's Women's Policy Office, some discrimination against women exists concerning salary levels (roughly 85% of that of men), employment opportunities (e.g. fewer women among top civil servants), and the under-representation of women in decision-making bodies (e.g. few Parliamentarians and only one female Minister).

Provisions on the rights of children are included in the Constitution. In September 1999 Slovenia ratified the Council of Europe Convention on the protection of the Children's Rights.

In March 1999, an amendment to the Law on Family Benefits was adopted stating that parents have the right to child-care benefits for the period when a child is given special health care until the age of 18, or until the end of the child's education up to a maximum of 26 years of age.

The rights of Disabled people (security, education, work-training) are guaranteed by Art. 52 of the Constitution and a special Office for the disables has been established by the Government.

Art. 41 of the Constitution guarantees the Freedom of conscience and rights of religious communities are well protected. Around 30 small religious communities are registered in Slovenia and a special Office has been established.

Trade unions continue to be active. They have successfully been involved in the process of adopting relevant legislation in Parliament (e.g. the pension and disability insurance law and the law on minimum wages) and were fully involved in decision-making on overall wage policy. The trade unions have contributed to the elaboration of the 1999 active employment policy programme.

Parliament ratified the European Social Charter in April 1999.

Minority rights and the protection of minorities

The situation of the Roma (6,500-7,000 people) continues to present some problems despite the Government being fully committed to finding solutions. The general protection law on the Roma which is foreseen in the Constitution (Article 65) has not yet been prepared. Nevertheless, the legal protection of the Roma community is guaranteed in sectoral legislation (including the law on local self-government of 1993, the law on local elections and education regulations). Whilst the political representation of the Roma is guaranteed through provisions in the law on local self-government, they are only represented in one municipal council. . It is estimated that 74% of Roma depends on state assistance and only 13% have a regular employment.

Measures are being undertaken in support of the Roma community by a Government Commission (which includes representatives of ministries, agencies, local municipalities and Roma associations) and a special Government programme for the Roma. Significant improvement has been noted in the field of education where the number of children that who regularly attended kindergartens and school have increased (1067 children attended primary school in the year 1998/99).

1.3. General evaluation

Slovenia fulfils the Copenhagen political criteria. Two areas which still need attention are the streamlining and speeding up of the judicial and parliamentary processes.

2. Economic criteria

2.1. Introduction

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

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

This finding was confirmed in the 1998 Regular Report.

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

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

In the analysis below, the Commission has followed the methodology applied in the Opinion and the 1998 Regular Report.

2.2 Economic developments

Since mid-1998, the macroeconomic situation in Slovenia has remained favourable. Economic growth has slowed down somewhat, but inflation has been further reduced, and export performance has continued to be strong. More importantly, the reform process has been reinvigorated in recent months by the adoption of several important pieces of legislation. Much progress has been made towards reforming the financial sector, notably with the adoption of the laws on banking and foreign exchange. A major reform of the tax system has been implemented with the introduction of value added tax on 1 July 1999, and agreement between the government, employers and trade unions on pension reform was reached in May 1999. Measures have been taken to remove some of restrictions on capital inflow.

Macroeconomic developments

Economic growth declined from 4.6% to 3.9% in 1998. As in previous years, growth was mainly driven by exports. Investment and, to a lesser extent, government consumption, were the most dynamic components of domestic demand, while growth in private consumption was dampened by wage moderation and low employment growth. Short-term indicators point to a further slowdown in economic growth in 1999.

As in previous years, economic growth has not been followed by an improvement in the labour market situation. The unemployment rate based on the ILO definition stood at 7.9% in 1998,

against 7.4% a year earlier. The high share of long-term unemployed, the low qualification levels of the unemployed, and the mismatch between labour supply and demand skills suggest that unemployment in Slovenia is mainly of a structural nature.

Slovenia remained relatively sheltered from the Russian crisis thanks to the earlier reorientation of its trade towards EU markets. The Slovenian economy benefited significantly from the economic upturn in the EU in 1998. Despite a further deterioration in price and cost competitiveness, the exports of goods continued to grow favourably and rose by 8.4% in real terms in 1998. Although imports grew faster than exports, the trade deficit remained virtually at the same level as in 1997 due to improved terms of trade. As the services surplus contracted as a result of lower tourism receipts, the current account showed a small deficit at the end of 1998, after recording a small surplus in the previous two years. In the first five months of 1999, the current account deficit widened substantially compared with the same period last year. The slowdown in growth in Germany and Italy, Slovenia's two main trading partners, is expected to result in a deterioration of the external accounts in 1999. Following a peak of close to €300 million in 1997, foreign direct investment inflows tapered off substantially in 1998.

Further progress in reducing inflation was achieved in 1998. After rising quickly in the first half of 1998 mainly as a result of significant adjustments in administered prices, consumer prices stabilised in the subsequent months. The average inflation rate decreased from 8.4% in 1997 to 7.9% in 1998. The downward trend in inflation continued in the first half of this year, with the year-on-year inflation rate declining from 6.5% in December 1998 to 4.3% in June. Throughout 1998 and in the beginning of 1999, disinflationary pressures resulted from the real appreciation of the currency, the fall in import prices, moderate wage growth, and increased competition on the domestic market partly due to price liberalisation. The introduction of the value-added tax (VAT) on 1 July 1999, is expected to push inflation upward in the second half of this year. The immediate impact of the measure has been relatively limited, with the year-on-year inflation rate rising to 6.8% in August.

Interest rates declined in both nominal and real terms in 1998, in large part due to increased competition among banks. In reaction to the preference of enterprises for borrowing abroad and in view of the opening of the financial sector to foreign competition, domestic banks reduced real lending interest rates in an effort to attract clients. Real interest rates on short-term corporate loans fell to 6.9% in 1998 from 10.3% in 1997, while real rates on short-term deposits were reduced to 1.8% from 4.0%.

The real exchange rate appreciated further in 1998. The nominal effective exchange rate of the tolar weighted by the currency basket of Slovenian exports depreciated by 2.5% on average last year. However, as Slovenia's main trading partners were more successful in reducing inflation and containing unit labour costs, the real effective exchange rate appreciated by over 3.5% both on the basis of the producer price deflator and of the consumer price index, and by 2.4% on the basis of unit labour costs in the whole economy.

Fiscal performance improved in 1998, with the general government deficit amounting to an estimated 0.8% of GDP, against more than 1% in 1997. In the face of disappointing tax revenues, and in an effort to achieve its budget target, the government decided, in late September, to implement an across-the-board expenditure cut of 3% for the remainder of the year. Part of the revenues from the sales tax collected in January 1999 was transferred to the 1998 budget. The budget for 1999 aims at a further decrease of the general government deficit

to 0.6% of GDP. Given the somewhat optimistic assumption for GDP growth underlying the 1999 budget and the uncertainties arising from the introduction of VAT, some revenue shortfalls might be recorded in 1999.

Main Economic Trends							
Slovenia		1995	1996	1997	1998	1999 latest	
Real GDP growth rate	per cent	4.1	3.5	4.6	3.9	2.7	Jan-Mar
Inflation rate							
- annual average	per cent	13.5	9.9	8.4	7.9	5.3	Jan-Aug
- December-on-December	per cent	9.0	9.0	8.8	6.5	6.8	Aug
Unemployment rate, end-year							
- ILO definition	per cent	7.4	7.3	7.4	7.9	:	
General government budget balance ³	per cent of GDP	-0.3	0.1	-1.5	:	:	

³ Excluding local government.

Current account balance	per cent of GDP	-0.1	0.2	0.2	-0.0	-3.5	Jan-Jul
	million ECU/€	-18	31	32	-3	-444	Jan-Jul
Foreign debt ⁴							
- debt export ratio	per cent	29	38	40	45	51	
	per cent	:	:	21	25	:	
- gross foreign debt	billion ECU/€	2.3	3.2	3.8	4.3	5.3	
	billion ECU/€	:	:	2.1	2.7	:	
Foreign direct investment net inflow	per cent of GDP	0.9	0.9	1.6	0.8	:	
- according to EBRD	million ECU/€	135	146	283	148	24	Jan-Jul
- balance of payments data							

Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics, EBRD.

Structural reforms

In November 1998, the privatisation of socially owned enterprises was completed: the few enterprises that had not been sold were transferred to the Slovene Development Corporation to be privatised or liquidated. The government is now turning its attention to the privatisation of financial institutions. In April 1999, the government authorised the management of the two state banks to draw up privatisation plans. The privatisation of the two state banks, which account for 40% of the market, is expected to take place over several years. As a first step, the State is expected to reduce its share in the Nova Ljubljanska Banka to 65% in 1999 from 93% in 1998. Part of the state shares will be earmarked to fill the privatisation gap. This gap has resulted from the mismatch between the value of privatised assets and the value of ownership certificates given to the population and is estimated to amount to nearly € billion. Voucher privatisation will be completed with the closure of the remaining privatisation gap. The government had pledged to achieve this by the end of July 1999 but failed to do so.

An agreement on the reform of the pension system was reached between the government, employers and trade unions in May 1999. This has formed the basis for the legislation, which is expected to be adopted by Parliament by the end of 1999. In addition to measures designed to improve the financial prospects of the pay-as-you-go system, the draft Law on Pension and Disability Insurance foresees the introduction of a voluntary pension insurance scheme. The reform is expected to contain the growth of pension expenditure from 2001 onwards.

A major reform of the tax system is being implemented this year with the introduction of the VAT and excise duties on 1 July, which replace the existing sales tax. The laws on valued added tax and on excise duties were adopted in December 1998 and are critical in aligning

⁴ The first row is taken from national sources. The data in the second row are the result of cooperation between BIS, IMF, OECD and World Bank. This source should be more reliable in terms of broader coverage, avoidance of double counting, etc., as well as improved timeliness.

Slovenia's tax legislation with EU requirements. Overall, the reform is expected to be revenue neutral as the yield of VAT should compensate for lower revenues from customs duties and pension contributions and for the withdrawal of the sales tax. However, the standard and reduced VAT rates adopted (19% and 8%) will not create sufficient budgetary room for the removal of the payroll tax as initially foreseen. The inflationary impact of the measure is expected to be one-off and not have a lasting effect on the inflation rate. Most importantly, the agreement recently reached between social partners on wage policy for the period 1999-2001 will contribute to limiting the impact of higher prices on wages. Wages will be adjusted for 85% of inflation in the month following the introduction of the VAT. In January 2000, wages will be adjusted again for 85% of inflation but the impact of VAT on prices will not be taken into account in the calculation of the inflation rate used as a benchmark.

Major steps have been recently taken to increase the competitiveness of the banking sector. The cartel agreement on maximum interest rates on deposits introduced in June 1995, which limited competition between banks for deposits, ended on 1 March 1999. The new Banking Law adopted in January 1999 aims to open the sector to foreign competition, notably by allowing the establishment of branches of foreign banks. In addition, the Banking Law creates a new deposit guarantee scheme and improves the system of regulation and supervision of the banking sector in line with EU directives. The regulatory framework of capital markets has also been upgraded. The Securities Market Law, adopted in June 1999 codifies regulation of brokerage houses and the stock market, and allows the establishment of branches of foreign brokerage houses. The main objective of the Foreign Exchange Law adopted in March 1999 is to liberalise capital flows in accordance with the provisions of the Europe Agreement. This law complements the measures taken by the Bank of Slovenia in February 1999 to remove some of the capital controls.

Enterprise restructuring is progressively taking place in Slovenia. A recent study based on a sample of 2023 companies, largely representative of the whole enterprise sector, has shown that, between 1996 and 1997, private enterprises improved their aggregate performance both in terms of net operating profits and of value added per employee. By contrast, non-privatised firms mainly owned by the Slovenian Development Corporation, and state-owned companies continued to record substantial losses. However, in 1998, the enterprise sector as a whole reported a net operating profit for the first time in the last five years. Significantly, the disinvestment trend in formerly socially owned enterprises has come to an end.

An amendment to the Employment and Unemployment Insurance Law adopted in 1998 aims to help the unemployed seek alternative work, while limiting the pressure on public finances. To deter some individuals from registering as unemployed and to stimulate job search, the amendment sets stricter eligibility criteria for obtaining cash benefits and defines more clearly the obligations attached to the status of unemployed. It also reduces the duration of entitlement to benefits. These changes reflect a shift from passive to active forms of protection. To this end, Slovenia has also introduced a number of active labour market programmes, which complement existing training programmes.

Main Indicators of Economic Structure in 1998		
Population (average)	thousand	1982
GDP per head	PPS-€ per cent of EU average	13700 69
Share of agriculture ⁵ in:	per cent	3.9
- gross value added	per cent	11.5
- employment		
Investment-to-GDP ratio	per cent	24.2
Gross foreign debt/GDP	per cent	15.2
Exports of goods & services/GDP	per cent	56.7
Stock of foreign direct investment, according to EBRD	Billion € €per head	1.0 515
<i>Source: National sources, OECD external Debt Statistics, IMF, EBRD.</i>		

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

⁵ Agriculture, hunting, forestry and fishing.

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

There is a broad consensus in the political system about the need to carry out structural reforms to prepare Slovenia for EU accession. Recent agreements on pension reform and bank privatisation within the government, and the acceleration of the parliamentary process for several key draft laws illustrate the improved co-operation between the coalition parties. However, there remain some disagreements on the modalities and the pace of reforms. The lengthy legislative procedure and difficulties within the coalition are sources of delay in the adoption of reforms and often result in a softening down of important reforms, such as the pension reform. Slovenia was one of the first candidate countries to finalise a Joint Assessment of medium-term economic policy priorities with the Commission. This was based on Slovenia's Strategy for Accession to the European Union; the product of a good working relationship between ministries.

Macroeconomic stability is well established in Slovenia, even though this has been achieved under a rather closed capital regime that is gradually liberalising. Most significantly, the easing of monetary policy in 1998 was accompanied by a reduction of inflation, suggesting that inflationary expectations have subsided. The recent turmoil in international financial markets has not affected the stability of the exchange rate. Slovenia has a good record in maintaining the balance of the external accounts. In the period 1992-97, the current account was always in surplus except in 1995, and it ended the year 1998 roughly in balance despite the Asian and Russian crises. The emergence of a general government deficit in 1997 and its persistence in 1998 represent a break with the past trend of nearly balanced public finances. Although the level of the deficit is low, further efforts at fiscal reform will be needed to contain expenditure and improve the efficiency of the tax system if the authorities want to maintain public debt at current low levels. In the near future, increased pressure on public expenditures will arise because of the ageing of the population and the reforms needed to prepare Slovenia for EU accession. The proposed pension reform will contribute to improving the financial prospects of the existing pay-as-you-go system, but it falls short of the objective of ensuring the long-term sustainability of the pension system. Low government deficits are also required to limit the crowding out of private investment on capital markets.

In 1998 and early 1999, further progress has been made on the liberalisation of administered prices. As a result, the share of administered prices in the consumer price index (CPI) fell from 17% at the end of June 1998 to 14.5% in May 1999. Gasoline prices constitute an important component of the goods and services whose prices are under direct control of the government; they are still well below cost recovery levels. Other administered prices include public services, railway passenger transport and milk. With regard to the liberalisation of interest rates, the ending of the cartel agreement on maximum interest rates on deposits is a significant step in the removal of indexation mechanisms. Significant progress has also been made in liberalising the capital account.

Slovenia has a relatively liberal trade regime. More than three-quarters of trade takes place under free trade agreements. The average tariff rate on industrial products was set at 10.7% in 1996, but as a result of the bilateral trade agreements, the effective rate of protection is much

lower and was about 4-5% in 1998. By 2001, virtually all customs duties on industrial imports will be removed. The level of protection for agricultural products remains high. The high number of tariff rates resulting from the various preferential trade agreements and the protection of the agricultural sector are detrimental to an efficient allocation of resources.

Although Slovenia has achieved substantial progress in privatisation since its independence, the share of the private sector in production is still relatively low, at about 50%-55%. State-owned companies and non-privatised firms play a significant role in the Slovenian economy, accounting for over 40% of total assets. The poor performance of these firms shows that they still need to undergo serious restructuring. There is also a need to continue with restructuring after privatisation, as in certain cases the incentives to do so are weak, particularly where ownership has been transferred to former management and employees. More efficient corporate governance would be encouraged by the further development of the Ljubljana Stock Exchange, which turnover grew by 60% in 1998.

Recently, further progress has been made in improving the regulation and supervision of the banking sector and capital markets. However, there are still some deficiencies in the application of bankruptcy laws. This is demonstrated by the fact that over the period 1994-1997, most loss-making companies have left the market by undergoing some reorganisation rather than through bankruptcy procedure. Bankruptcy proceedings are hampered by the lack of administrative capacity in the court system. Procedures in courts are lengthy, there is a sizeable and increasing backlog and verdicts are not always executed. In 1999 thus far, Slovenia has initiated 168 bankruptcy procedures, 12 of which are currently in the last phase of liquidation procedure. This trend is not significantly different to that of 1998.

The land market has been liberalised and 92% of the agricultural land is in private hands. Former state farms, which were all privatised by 1998, are constrained in their investment decisions by uncertainties about the property rights on the land which they use. Only 28% of this land has been officially restituted.

The profitability of the financial sector has increased significantly in recent years, notably as a result of the successful completion of the rehabilitation process of two large state-owned banks in mid-1997. The quality of bank assets has also improved. The average capital adequacy ratio at the end of December 1998 was 16%. This strong capital position increases the protection of banks against existing and potential non-performing assets. However, banks still need to increase their capacity to lend. The ratio of domestic credit to GDP, at 41%, is relatively small. In 1998, the credit activity of banks increased. In December 1998, outstanding loans were up by 18.7% in real terms over December 1997. Bank lending to households increased more than lending to the corporate sector.

Higher credit activity is a sign of increased competition among banks. Market pressures are leading to the gradual consolidation of the banking sector. In 1998, one bank was liquidated and three banks merged. As a result, the number of licensed banks fell to 24 at the end of 1998 from 28 a year earlier. In order to be able to face increased competition, banks are looking for strategic alliances. The privatisation of the two largest state banks will be critical in consolidating the banking sector. Major efforts are still needed to improve the competitiveness of the insurance sector and of capital markets.

Slovenia can be regarded as a functioning market economy. It has maintained its macroeconomic stability but the legal environment for enterprises still needs to be improved. Although important measures have been recently taken to increase the efficiency of the banking sector, further reforms are needed so that the financial sector can play its role of channelling savings to investments. In particular, privatisation of state assets, including the two state banks, needs to be accelerated. Measures are needed to improve corporate governance in both state-owned and newly privatised firms. Restructuring of public utilities and liberalisation of the environment in which they operate are necessary. The gradual approach to structural reform followed thus far by Slovenia should make way to a bolder approach that will boost the growth potential of its economy.

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

As set out in Agenda 2000, Slovenia's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Slovenia is a functioning market economy with a sufficient degree of macroeconomic stability. It is essential to raise savings and investment to the level, which is needed to maintain the competitiveness of the economy in EU markets. It is also important that the Slovenian authorities pursue fiscal reform and maintain tight control over expenditure.

Investment represented around 24% of GDP in 1998. Most of the increase in investment has been recorded in infrastructure, mainly in road construction. The share of construction in total investment stabilised at about 44% in 1997. Infrastructure is well developed and investment in telecommunications and transport increased substantially in 1998. Although Slovenia has a highly skilled labour force and a high level of basic scientific research, further investment in education and research and development is needed.

The net inflow of foreign direct investment halved to 0.8 % of GDP in 1998 compared with the previous year. Although, with the exception of the year 1997, foreign direct investment inflows into Slovenia have been low, Slovene enterprises with foreign participation are the most dynamic component of the enterprise sector. They perform better than domestic firms and account for the largest share of total net investment after state-owned companies. Recent measures, including the removal of some of the capital account restrictions and the adoption of the Foreign Exchange Law and of the Banking Law, will contribute to a more business-friendly environment for foreign investors.

In the past, high wage costs have significantly undermined the competitiveness of the Slovenian economy. However, real wage growth has been decelerating significantly since mid-1997,

largely as a result of the wage adjustment law in force until June this year. Real wage increases slowed from 5.1% in 1996 to 2.4% in 1997 and again to 1.6% in 1998. As in the previous year, real wage growth was lower than growth in labour productivity in 1998. Despite the fall in unit labour costs, there was no improvement of the competitiveness of the Slovenian economy last year because of more favourable developments in this area in its main trading partners.

While banks have substantially improved their profitability and the quality of their assets, they do not yet carry out their intermediation role properly. Also, because they often have strong links with enterprises, they do not exert sufficient pressure on the latter to restructure. Major steps have been recently taken to accelerate the reform of the banking sector and will contribute to make Slovenian banks more efficient and competitive. Privatisation of the two state banks is a key element of the reform agenda. Reform of the two other segments of the financial sector, especially the insurance market, is also needed. In contrast to banks, insurance companies still need to undergo more fundamental restructuring.

The degree of trade integration with the Union continues to increase. About two thirds of total export and import flows are with the EU. In 1998, the real effective exchange rate of the tolar appreciated by over 4% against EU currencies in terms of relative consumer prices. But the tolar increased by only 0.4% both on the basis of relative unit labour costs and on the basis of relative export prices. Despite the deterioration of its price and cost competitiveness, Slovenia increased its market share in the EU.

The proportion of small firms in the economy is also indicative of the capacity of Slovenia to cope with competitive pressures. SMEs are an active segment of the Slovenian economy, accounting for about 98% of all enterprises and 38% of the income generated by the enterprise sector. However, they suffer from a difficult access to banking finance, an inadequate business environment and a lack of managerial skills. Recognising the significant role of small firms in the economy, the Slovenian authorities have elaborated a strategy for their development for the period 1996-2005. Employment possibilities offered by SMEs are also critical to absorb the redundancies resulting from the enterprise restructuring. The share of the workforce employed by SMEs in total employment, at about 40%, is low compared with the EU average.

Recent developments have confirmed that Slovenia has the capacity to cope with competitive pressure and market forces within the Union in the medium term. The current reform of the financial sector is critical in accelerating enterprise sector restructuring and clearing the way for increases in investment. This, in turn, will result in increases in productivity and greater competitiveness. There has been much progress in improving the environment for foreign investors. Success in attracting more foreign investment will contribute to creating a more dynamic and competitive enterprise sector.

2.4 General evaluation

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

Slovenia has maintained macroeconomic stability. The reform process has been reinvigorated in recent months by the adoption of several important pieces of legislation. Progress has been

made in reforming the financial sector, notably with the adoption of laws on banking and foreign exchange. A major reform of the tax system has been implemented with the introduction of value added tax. The government reached an agreement with employers and employee representatives on pension reform. Measures have also been taken to remove some restrictions on capital inflows.

Slovenia has followed a gradual approach to structural reform. This needs to be speeded up in order to take greater advantage of the growth potential of the economy. Priority should be given to the privatisation of state assets, including the two state banks. Measures are needed to improve corporate governance in particular in state-owned and newly privatised firms. Restructuring of public utilities is necessary. The legal environment for enterprises should be further improved

3. Ability to assume the obligation of membership

This section aims to update the Commission's Regular Report of 1998 as concerns Slovenia's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1998 Regular Report on Slovenia's progress towards accession, the Commission concluded that :

“Slovenia has not sufficiently progressed in its overall approximation effort. Key parts of internal market legislation are missing. Slovenia has not made sufficient progress in tackling key issues such as the abolition of duty free shops and the timely introduction of VAT and excise legislation.

The lack of momentum in the approximation and administrative capacity building process is evident in the area of justice and home affairs.

With the exception of the economic reform priority, Slovenia has not adequately addressed the short term Accession Partnership priorities.”

The presentation which follows uses the same structure as the 1998 Regular Report. The report focuses on the progress made since October 1998. Under each heading legislative decisions and the progress in implementing and enforcing the legislation are reported.

3.1. Internal market without frontiers

The Union's internal market is defined in Article 14 of the Treaty as an area without internal frontiers in which the free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

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

The procurement market has been presented as a market that is in principle open to European companies. However, national preference clauses are still applicable which allows national bidders a 10% higher price than other bidders provided they equally fulfil other terms and conditions. The provisions of the present *Public Procurement* law, which entered into force in July 1997, are still not fully in line with the *acquis* notably in respect of the existence of preference clauses.

The National Audit Commission for Public Procurement, an independent body which became operational in 1998, currently oversees public procurement procedures, but there has been no progress towards the establishment of a Public Procurement Office which will implement amended public procurement legislation (refer to chapter on administrative capacity, on the functioning of public procurement institutions).

A law on auditing public procurement procedures regulating the protection of bidders' rights and incorporating into national law the Community legislation on remedies was passed in July 1999. This Law defines the competencies of the National Audit Commission and of the purchaser in the audit procedures, as well as the arbitration procedures, and it foresees two implementing regulations covering the confirmation of the rules of procedure of the Audit Commission by the National Assembly and the definition of the terms, rights and conditions of the audit experts.

In the field of *intellectual property*, there has been no progress and a number of amendments (on terms of protection, exhaustion, exclusive rights for cable retransmission) are still needed to bring Slovenia's legislation in line with the *acquis*. Better enforcement has been facilitated through amendments to the Criminal Procedure law which entered into force in January 1999 and amendments to the Penal Code adopted in April 1999. Nevertheless, piracy rates are still too high, and new legislation on border measures remains to be adopted.

The legislative alignment in the field of trademark has been quite satisfactory until now. Slovenia will have to make further efforts in the field of patents, in particular concerning protection of pharmaceutical products, in order to fully comply with the EU level of protection. Nevertheless, Slovenia has ratified the New Varieties of Plants Convention, and in January 1999, Slovenia was invited to accede to the European Patent Convention as from 1 July 2002.

A new *data protection* law was adopted in July 1999 and entered into force in August 1999, the aim of which is to approximate national legislation on the *acquis*.

Amendments to the *Company Law* were adopted by the Parliament in January 1999 and the nationality condition for board membership has been removed. Nevertheless, a clause requiring the use of the Slovene language within companies introduced in the new legislation represents a discriminatory provision against foreign directors and foreign firms and should be removed.

With regard to *accounting*, the new Law on Accountancy was adopted by the Parliament in March 1999, and is scheduled to enter into force at the beginning of 2000.

The four freedoms

In its Opinion the Commission indicated that despite Slovenia declared to have adopted almost half of the *acquis* listed in the White Paper, still considerable legislative efforts were necessary to achieve full conformity. The assessment in the following Regular Report reported the very limited progress achieved by Slovenia, and underlined that major efforts were needed to align legislation in a number of areas, notably free movement of goods, capital movement, banking, and insurance.

Free movement of goods

Starting from a low level of approximation the process of legislative alignment has advanced significantly .

The Law on General Safety of Products which transposes the General Products Safety Directive was adopted in April 1999.

Progress has also been made in the adoption of the framework legislation in the field of standardisation and technical regulation. This was a short-term priority in 1998's Accession Partnership. The Law on Technical Requirements for Products and Conformity Assessment was adopted in July 1999. This provides the legal framework for the adoption of technical regulations under both the product specific and New Approach Directives, as well as outlining a series of principles mainly related to the New and Global Approach. The Law on Standardisation, also adopted in July 1999 deals with the procedures for adopting individual standards and the establishment of the relevant institutional bodies, whilst the Law on Accreditation adopted in July 1999 regulates accreditation procedures by laying down the main principles and through the establishment of an independent public institution for accreditation.

Some progress has been achieved in the sector specific legislation – the Law on Chemicals, designed to align Slovenian legislation to that of the EU in the field of dangerous substances was adopted in April 1999; a regulation on foodstuffs transposing EU requirements on labelling, presentation and advertising of foodstuffs has been adopted; and in the field of pharmaceuticals, regulations on pricing standards, wholesale trade in medicines, and verification and control procedures have been adopted. However, advances in the majority of other individual fields have been limited. It is now imperative that on the basis of these laws, Slovenia increases the pace of transposition of individual New Approach Directives.

Overall, Slovenia has only adopted around 3,000 EN standards (45% of the total).

With regard to the structures necessary to apply the *acquis*, the restructuring of the Standards and Metrology Institute of Slovenia is underway. In this context, the establishment of a Department for the Free Movement of Goods within the Ministry of Economic Relations and Development is encouraging. However, this represents only the first step towards achieving the required separation between the regulatory, standardisation, accreditation and certification functions. Effective implementation of the above-mentioned legislation is required to ensure that such a separation occurs and that the relevant bodies are established and operational according to the planned schedules. Furthermore, there remains a general need to strengthen the relevant institutional structures, in particular those dealing with market surveillance.

Free movement of capital

Whilst good progress has been made in the free movement of capital, the liberalisation process is still lagging somewhat in Slovenia. The key legislative measure is the Foreign Exchange Law, which was adopted in March 1999 and entered into force in April 1999. This brings the scope and concept of capital movements in line with the *acquis* and stipulates that transactions are free unless they are restricted by other laws or secondary legislation. The Law removes most restrictions previously imposed on residents investing abroad or in foreign currencies. In addition, investments of non-residents in Slovenia are further liberalised, but short-term transactions are still subject to comprehensive restrictions.

The entry into force of the EU-Slovenia Europe Agreement on 1 February 1999 also triggered the liberalisation of certain capital transactions. In accordance with the Agreement, foreign direct investment aimed at the establishment of branches and subsidiaries of foreign banks is possible since the adoption of the new Banking Law (see section on Free Movement of Services below). In addition, the Bank of Slovenia abolished the non-interest Tolar deposit requirement on foreign financial loans, although it reserved the right to impose a deposit requirement in case of monetary and exchange rate difficulties. Furthermore, the Bank of Slovenia relaxed significantly the restrictions imposed on foreign portfolio investments, by reducing the scope of custody account obligations.

The entry into force of the above legislative measures means that Slovenia has finally made progress in the liberalisation of capital movements. However, a fairly large number of restrictions still remain, in particular in the area of foreign direct investment and short-term transactions.

Free movement of services

Progress has been made in the *banking* sector. The Banking Law, which was adopted in January 1999, enables the opening of foreign banks' branches in Slovenia. In addition, it contains the basic provisions regulating the establishment, operations, and supervision of banks, including an 18-month adaptation period. These provisions cover transposition of the BCCI Directive, grant the Central Bank the possibility to adopt the Netting Directive, complete the legislation concerning the supervision on a consolidated basis of bank groups, and outline regulations concerning the bankruptcy and liquidation of banks and deposit guarantee schemes. Measures to complete the transposition of the Directives on Capital adequacy for market risks need to be developed (refer to chapter on administrative capacity, on the functioning of bank supervision).

Notwithstanding the low level of alignment, no progress has been achieved in the *insurance* sector. The legislation allowing foreign ownership of insurance subsidiaries and of authorised investment funds has not been passed yet.

Progress has been made in the field of freedom to provide services in the *securities* market. The Securities Market Act adopted in June 1999 has removed the previous provisions which prevented foreign brokerage houses from setting up in Slovenia. Foreign brokerage houses can now carry out securities-related activities through a branch established in Slovenia (subject to obtaining a local licence). The Act also removes the restriction under which the holding of foreign entities in a Slovenian brokerage house may not exceed 24% of the latter's basic capital, and lays down rules of conduct for the carrying out of investment business. In addition, the Act gives the Securities Markets Agency new powers, and enables it to co-operate with other supervisory bodies both within Slovenia and abroad.

Advances in the functioning of the *payments* system continue to be made following the implementation of the basic features of the real time gross settlement system in April 1998. As regards retail payments, progress has been made through the establishment of a giro clearing system, and legislation now needs to be passed to ensure that banks guarantee uniformity in retail and corporate payment transactions, both nationally and internationally.

Free movement of persons

Immigration and work permit policies remain restrictive and further harmonisation is necessary. However with the entry into force of the Europe Agreement on 1 February 1999, some liberalisation has taken place, e.i. the Government adopted new instructions on how to issue work permits to spouses and children of EU citizens residing and working in Slovenia. Work permits are not required for the employment of non-nationals in top managerial positions.

With regard to mutual recognition of diplomas and professional qualifications, Slovenia is largely in compliance with the *acquis*. Most professional structures are in place, although some further strengthening will still be necessary. Amendments to the Law on Employment and Unemployment Insurance were adopted in September 1998, and the Law on Establishing Reciprocity in February 1999. Rules on the procedures for the acquisition of professional qualifications were published in June 1999, and the new Law on Foreigners was adopted by the Parliament in July 1999.

Co-ordinating responsibility for the mutual recognition of qualifications is with the various Ministries, professional chambers and higher education institutions. Slovenia still needs to designate a competent co-ordinating authority, covering all professions relevant to the *acquis* in this field, and dealing with the procedural guarantees that all emigrants must be offered. The requirement that migrants obtain a certificate of good health is not in conformity with the *acquis* and will have to be removed, as will any residence requirements linked to registration in any of the professional registers.

Competition

In the field of *anti-trust*, the last Regular Report indicated that the Slovene competition rules, had major shortcomings. Important legislative progress has been achieved in June 1999 when the Law on the Prevention of Limiting Competition was adopted, which was a short-term priority of the Accession Partnership. This legislation brings Slovenian legislation broadly into line with the *acquis* and introduces provisions on market definition, the test of dominance, the treatment of joint ventures and gives investigative powers to the Competition Protection Office. The Law on Competition Protection of 1993 continues to regulate the areas of dominant position, dumping and subsidised import.

On the other hand, a legal framework for *State aid control*, is still lacking and a full State aid inventory still has to be completed. Slovenia has not yet aligned its State Aid awards provisions with the *acquis*. It is important that the newly established Commission for State Aid Control which produced the first Survey on State aids at the end of June 1999 (for 1997 and 1998), also establishes a full inventory of State aid by the end of 1999. The first Survey indicates that total State Aid is still significant. No effective monitoring of state aid exist yet by which their compatibility with the Europe Agreement can be ensured.

Conclusion

Progress made has been encouraging and the majority of short-term priorities in the Accession Partnership, concerning Internal Market have been met. Legislation in line with the principles of the *acquis* has been adopted, most notably in the fields of framework legislation for the free

movement of goods, capital liberalisation, company and banking law, and anti-trust. However since this legislation has been adopted only recently, at this stage it is not possible to assess how it is going to be enforced.

Slovenia now needs to consolidate this progress through the adoption of other key pieces of internal market legislation where transposition has not yet occurred. In the field of free movement of goods, now that the horizontal framework legislation has been adopted, it is important to make rapid progress in the adoption of EN standards and individual Old and New Approach Directives. In addition, legislation remains to be aligned in the fields of public procurement, copyright, industrial property and state aids.

In terms of institutional capacity, significant progress remains to be made in the majority of areas. In particular a Public Procurement Office needs to be established, and the institutions responsible for regulating the free movement of goods needs to be further reinforced. In addition, the Competition Protection Office should continue to increase the number of its staff to ensure efficient enforcement of the new anti-trust law, whilst the State aid monitoring authority should become fully operational.

3.2. Innovation

Information society

Slovenia has continued to pay attention to the development of the information society. The tasks of the Government Informatics Council were widened within governmental bodies, public institutions and other organisations carrying out public duties.

By the end of 1998, the electronic payment transaction system has been introduced by 10% of small-sized enterprises and by about 30% of large companies. The target for 1999 is approximately one third of small enterprises and about 50% of large companies.

Education, training and youth

Slovenia ratified the Council of Europe Convention on recognition of qualification (Lisbon Convention) in July 1999. However the new Law on Higher Education, stipulating that EU citizens will have the same rights as Slovene citizens, is still to be adopted..

A programme of vocational courses for kindergarten teachers and rules for the implementation of foreman and managerial examinations were adopted. In the field of the food industry, the first programme of professional and technical education is being experimentally introduced. In the school year 1998/99, the possibility to acquire vocational and professional training substantially increased.

From May 1999 Slovenia participates in the Youth for Europe, Socrates and Leonardo Da Vinci programmes.

In 1998-99, 240 students have benefited from Erasmus mobility grants to study in EU countries and 1000 young Slovenians have taken part in the Youth for Europe programme.

Research and technological development

The present Community *acquis* does not require transposition into the national legal order. However, the compatibility of the general legal order with the Community *acquis* needs to be ensured.

The allocation in the State Budget for the Ministry of Science and Technology for 1999 amounted to 0,68 % of GDP for 1999 and the total amount spent on research in 1999, (including private expenditure) was about 1.45% of GDP.

The association of Slovenia with the 5th Framework Programme (1999-2002) and with the Euratom Framework Programme has entered into force in August 1999. In order to prepare for successful association, several information dissemination structures have recently been created or consolidated. Slovenia has also decided to open its corresponding research activities to the enterprises, researchers and universities from the Member States.

Research is reflected as a priority in the National Programme for the Adoption of the *Acquis*.

Telecommunications

Starting from a low level of alignment Slovenia has made some further steps towards implementation of the *acquis*. Secondary legislation has been adopted on the use of radio frequency spectrum for satellite personal communication services, on the provision of Iridium services, on citizen band services, on the provision of public voice telephony and telex services, and on the allocation of radio frequency bands. However, progress in liberalization of the markets for services and alternative infrastructures is still insufficient as the decree on public telecommunications services extending the exclusive rights of the public network operator to the infrastructure for data communications and multi-media applications is still in force. This means that alternative infrastructures e.g., CATV, rail roads or electricity networks cannot be used for these services, and CATV operators providing Internet services still have to use the network of Telekom Slovenije for long distance and international access. In view of this problem, as well as non transparent pricing practices for leased lines, the Competition Protection Office has initiated two investigations into Telekom Slovenije's alleged abuse of dominant position.

In the field of data protection, the requirements of the EC regulation concerning directory data and calling line identification have been implemented. First measures towards tariff rebalancing have been taken, but the international tariffs are still among the highest in the CEECs and the connection charges to the public network are about three times above the regional level.

In the context of the further privatisation of the public operator Telekom Slovenije, the 1998 Government decision to reduce the State's ownership from 73.9% to 66.5% of the capital by transferring the shares to Authorised Investment Companies for Privatisation Vouchers, has not yet been implemented.

Slovenia has reached a high level of infrastructure development in the telecommunications sector, which continues to develop very well. However, it is essential that Slovenia accelerates the liberalisation process and the pace of legislative alignment, and continues to implement a

programme designed to help in the establishment of an independent regulatory authority. The strengthening of resources of the Ministry of Transport and Communications remains an urgent priority.

The postal law of 1997 brought Slovenian legislation in the postal sector partially in line with the *acquis* but differences remain. The regulation on the scope of reserved services and on the quality of service standards and monitoring are still non-compliant.

Audiovisual

Slovenia has not made any significant progress and legislation is still not in line with the *acquis*. Amendments to the new Media Law and the Law on Radio and Television are still to be adopted.

The existing administrative and implementation structures (the National Broadcasting Council) were in place before 1997. However, the Council has limited powers for effective monitoring: this weakness should be addressed in any new legislation.

Slovenia ratified the European Convention on Trans-frontier Television in June 1999.

Conclusion

Progress has been achieved in the field of research and technological development with the full association to the 5th Framework Programme. Slovenia has a well developed telecommunications sector. However, it should make further efforts to complete alignment to the *acquis* by early adoption of a new telecommunications law and to introduce gradual liberalisation of all telecommunications services other than voice telephony before 1/1/2001.

Slovenia has not made any significant progress in the field of audio visual.

3.3. Economic and fiscal affairs

Economic and Monetary Union

Slovenia has indicated that it accepts and will comply fully with the EMU *acquis* as defined by title VII of the EC treaty and the other relevant texts. Slovenia has also stated that the administrative structures to implement and enforce the *acquis* will be in place.

Slovenia has made little additional progress in its preparation for participation in the Economic and Monetary Union. In particular, for the *acquis* that has to be implemented before accession, the current Bank of Slovenia Act still provides for the possibility for the central bank to grant short-term loans to the government, even though this provision has never been used. Current legislation does not seem to provide for privileged access of public authorities to financial institutions, although rules regarding the investments of institutional investors, such as pension funds and insurance companies need to be checked further. The Bank of Slovenia is not yet

fully financially independent, and the personal independence of the members of its board is not fully guaranteed, as they only hold part-time jobs.

Compliance with the EMU *acquis* is conditional upon completion of the process of liberalisation of capital movements, which is examined under section on free movement of capital.

Taxation

Starting from a low level of alignment, Slovenia has made substantial progress in the field of taxation since the publication of the last regular report. In July 1999, the Value Added Tax Act and the Excise Duty Act entered into force together with the relevant implementing provisions. Although two acts are based on Community principles, further amendments will be required prior to Slovenia's accession to the EU to ensure full compatibility with the *acquis*. The introduction of VAT was preceded by seminars on VAT and excise duty. A special booklet with instructions has been produced and an Info-Office has been set up.

The re-organisation process of the Tax Administration has begun in order to make procedures more efficient and to increase the effectiveness of value added tax collection. Training of the executive and managerial staff and instructors, controllers and inspectors in the Tax Administration has taken place.

VAT registration has been completed and the tax administration started developing its own computer support for VAT. For the purposes of implementing the Value Added Tax Act and the Excise Duty Act, the customs computerised system was upgraded. A register of excise payers was set up.

It is regrettable that Slovenia has not yet honoured a commitment given under the Europe Agreement to close, by July 1998, the tax-free shops which operate on its land borders with Member States. Proposals by the Slovene authorities to gradually increase the level of excise duties applied in these shops are not acceptable in that they would only lead to full harmonisation by time of accession. Slovenia should take urgent action to bring tax levels on goods sold in these shops into line with normal national levels.

Conclusion

With the adoption of VAT law and its entry into force an important short term priority of the Accession Partnership was finally met. At this stage however it is clearly not possible to assess the implementation and the concrete functioning of the new VAT and excise systems. Important efforts have been made to restructure the tax Administration. The government's proposal to link the closure of tax-free shop to the date of accession is not acceptable to the Commission.

Statistics

Slovenia continues to make progress in aligning its statistical *acquis* to that of the EU. The main national classifications, as well as classifications of institutional sectors and the latest version of the International Classification of Diseases have been adopted. National accounts, including

quarterly and financial accounts, are produced. Effective compliance has also been ensured in price statistics, labour force and other social surveys, business register and certain other areas of business statistics including short-term statistical data. .

Efforts to achieve further alignment are still needed in a number of areas, in particular quality and availability for input data in national accounts, accounts at constant prices, specialised agricultural and regional statistics, and business and producer price statistics. Moreover, there is still no comprehensive structure of business surveys co-ordinated all over sectors, and there is also no accurate independent agricultural survey. The Slovene Statistical Office needs to ensure that the census on agriculture envisaged for the year 2000 is effectively carried out.

The administrative structures needed to implement and enforce the *acquis* are largely in place. Moreover, the functional and professional independence of the Slovene Statistical Office are in practice largely assured, although these provisions still need to be formally transposed in legislation. Attention should now be focused on reinforcing the Office, both in terms of increased numbers of staff, as well as ensuring that it is able to effectively perform the role of co-ordinating and presenting all statistical data.

3.4. Sectoral policies

Industry

The ‘Strategy for Increasing the Competitiveness of Slovene Industry’, first adopted in 1996, updated in 1998, aims to improve the general business environment and the competitive position of Slovenian industry by focusing on Research and Development, export development, and the promotion of Foreign Direct Investment. Its principles are in line with the *acquis*.

As regards the restructuring of individual companies, the transformation of ownership of formerly “socially-owned enterprises” was officially completed in 1 November 1998. Any “socially-owned enterprises” which had not been sold off were transferred to the Slovene Development Corporation. The value of the companies transferred was just under 2% of the “socially-owned” capital, and the Corporation was given responsibility for restructuring and privatising these firms, or winding them up.

Measures should be taken in order to promote Foreign Direct Investment inflows which decreased in 1998 (see chapter 2 on Economic criteria)

There has been progress in the industrial restructuring of privatised companies. The relatively high number of company creations is indicative of an increasing dynamism in the industrial sector, and higher corporate investment throughout 1998 is further evidence of such a trend. Nevertheless, there is further scope for the process of company-led restructuring in privatised enterprises to gather pace, as the incentives to do so often remain too weak, particularly where ownership has been transferred to management and employees. Moreover, large-scale utilities remain in state ownership, and there has been little progress in their restructuring. The overall share of the state sector in GDP stands at 45%, which is a relatively high figure.

In terms of the situation in individual sectors, the best-performing industries are those which successfully export to foreign markets. These include the chemical, rubber and pharmaceutical

industries, the industries manufacturing electrical and optical equipment, and the household appliances industry. In the agro-food industry, the wave of completed mergers and take-overs is another sign of corporate activity aiming to increase levels of competitiveness.

The most serious structural problems are in the steel sector and in a number of labour-intensive industries. As regards steel, there has been some progress. Following the adoption of the Law on the Privatisation of Steelworks in May 1998, 20% of the steelworks' shares have been internally distributed. One of the three main steel mills was sold to a foreign investor in May 1999, and one of the subsidiary steel mills was sold in September 1999. However, the overall restructuring programme for the whole sector submitted by the government in 1998 was not judged to be satisfactory by the Commission as it did not address the issue of restoring long-term viability to the sector and state aid is still being granted to the sector. Urgent priority should be given to the preparation of a revised restructuring programme which adequately outlines how long-term viability to the sector can be restored. Similarly, progress needs to be made in the adoption of restructuring programmes in the textile and footwear sectors. An important dimension of the industrial policy is the control of state aids (see competition chapter).

Agriculture

Agricultural situation

In 1998, Slovenian agriculture accounted for 3.6% of the GDP and for 5.6% of total employment. The general economic situation in agriculture has rather worsened, mainly reflecting slow progress in structural reform, in adjustment to growing competition on domestic and external markets and due to certain depressed markets such as those for pork, maize and wine.

The Slovenian farm structure is dominated by small and mostly private farms that use 92% of the agricultural land and account for about three quarters of total agricultural output. The remaining land is used by former state farms which were all privatised by 1998. However, investments and farm activities are constrained by uncertainties regarding the property rights of the land used by these farms. Only 28% of this land has been effectively restituted by April 99, the remaining part is under dispute. The privatisation of the food processing sector was nearly completed in 1998.

In quantitative terms, Slovenia considerably increased general exports of agricultural products and food to the EU. In 1998 a value of €90.4 million was reached, representing 6.2% of total exports to the Community. However, the importance of agriculture in total trade continues to decrease amounting to less than 2% in 1998.

EU agricultural exports to Slovenia continued to increase in 1998. The Community surplus in agricultural trade with Slovenia amounted to €323 million in 1998.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture which will enhance progressive and orderly liberalisation of bilateral trade.

Agricultural Policy

As regards the domestic *support policy*, the Slovene government has continued to fix producer prices for wheat. The Agency for Commodity Reserves implements this policy. At present, commercial mills are allowed to import wheat directly whilst previously the Agency for Commodity Reserves had sole competence on selling wheat. Prices are also fixed for sugar beet, rye and milk. Prices for other agricultural commodities are free from controls. The trade regime differs from the EU system. Slovenia is not entitled to give export refunds.

There are two systems of land registry: a land register providing data about land ownership, managed by the Ministry of Justice and a cadaster providing identification of plots, run by the Ministry of Environment. Both systems are being modernized.

The amount of direct budgetary support provided to agriculture has grown and continues to focus on structural policies (support for less-favoured areas and rural development) rather than on input subsidies. An inventory of agricultural aid is under preparation. Direct area payments per hectare were introduced in 1999 to compensate for reduction in guaranteed prices.

In the *veterinary field*, a number of implementing regulations have been adopted by mid-1999 in the areas of control of animal diseases, reproduction, trade, feeding stuffs, raw material and waste of animal origin. Slovenia has not yet sufficient legislation to implement the *acquis* as regards animal welfare, veterinary drugs, residue control, farmed and wild game meat and zootechnics. The existing veterinary control systems are not in line with the *acquis*. The safeguard procedures for blocking regions need to be amended as does the existing system for the financing of controls. The procedures for registration and identification of animals do not meet EU requirements for any species and the two existing identification systems need to be integrated. The border inspection posts do not meet EU requirements. The decision to build new infrastructure facilities along the Croatian border has not yet been carried out.

Vaccination against classical swine fever is still practised. Contingency plans exist for all diseases with the exception of fish diseases. The national reference laboratories need to align with Community requirements. Most establishments do not meet EU requirements. A decree on the restructuring of slaughterhouses was adopted in June 1999 with the aim of initiating a programme to improve the structures.

As regards the *phytosanitary sector*, Slovenia harmonised the maximum pesticide level in plants for human consumption.

A plan for the reform of agricultural and *rural* development policy was adopted in October 1998 and will be implemented during the period 1999-2002. This plan covers market price policy, a programme for environment and landscape assistance for agriculture (including a direct payment scheme per ha), a programme for the modernisation of farm structures and food industry and a rural development programme. The reform will lead to further progress in market liberalisation, the establishment of the CAP mechanisms and the abolishment of state monopolies. However, its implementation will require substantial financial means and an adequate institutional framework. In addition, a National Programme for the development of Agriculture, Food, Forestry and Fisheries 2000-2002 has been adopted by the government

The adoption in June 1999 of the Act amending the Organisation and Work Area of the Ministries Act provided the basis for the creation of the Agency for Agricultural Markets and Rural Development, which will function as a Paying Agency Initially, this Agency will manage pre-accession aid (SAPARD) and gradually take over the assignments of the EAGGF Guarantee Fund.

The Agency for Agricultural Markets will also be the institution responsible for the implementation of rural development measures and structural policy. At present, there are no multi-annual programmes. A register of agricultural holdings receiving subsidies has been set up.

Certain initiatives for local development exist (diversification of non-farm activities, promotion of direct retail trade) as well as small-scale operational programmes in the context of the Integrated Rural Development and Village Renewal. The current delimitation of Less Favoured Areas (LFA) needs to be adjusted to EU criteria. Aid for young farmers was introduced in 1998. There is no agri-environmental programme in place in Slovenia, although a number of individual measures and schemes do exist. Investments in marketing and processing of agricultural products are supported within the general investment support scheme. As regards forestry, there is no support for afforestation, and processing and marketing of forestry. The current scheme for the protection of forests against fire is partly in line with the *acquis*. The procedures for the collection of data need to be adjusted.

Concerning the *common market organisations*, the key management mechanisms in the arable crops sector are not yet in place and in particular the conditions for market mechanisms independent from the state have not been established. The de facto state monopoly on buying and selling wheat and rye still exists. Quality standards exist for all cereals, although those for wheat still have to be harmonised with EU standards.

Beef production is supported by several premia for breeding, slaughtering and for promotion of production in LFA. Public intervention for beef is provided for in national legislation but has only been carried out in 1996 so far. In the milk sector the government determines fixed producer prices, no milk quota system nor intervention system exists. For the pigmeat sector intervention buying-in was introduced for the first time in 1998. For sheep and goats a premium is granted to meat producers who sell neither milk nor milk products.

Concerning the fruits and vegetables sector, there is no legal framework for producer organisations but the co-operatives and associations established in recent years have similar tasks to EU producer organisations. There is no system of production aid for processed fruit and vegetable products with the exception of support for the purchasing of apples intended for processing. Quality inspection at wholesale and retail level is not effectively applied on internal trade. Rules on quality of fruits and vegetables are partly in line with the *acquis*.

Conclusion

Some progress towards the full implementation of the agricultural *acquis* has been made but a large amount of alignment and implementation still needs to be done. Some weaknesses have been addressed over the last year, namely in the setting up of structures to implement structural and rural policies and the decision for the modernisation of the land register.

The short term priority of the Accession Partnership of reinforcing capacity in the veterinary and phytosanitary administration, in particular the announced decision to build the border inspection post at the Croatian border, has not been implemented. Significant incompatibilities with the *acquis* for market organisations remain, in particular the existence of a state monopoly for wheat and rye.

The reform of the agricultural policy addresses most of the changes needed to be in line with the *acquis*. If its implementation proceeds as scheduled (1999-2002), Slovenia could be in line with the common agricultural policy in the medium term, provided that the necessary financial means are available and the institutional framework is established.

Fisheries

The fisheries sector is only of marginal importance for the Slovenian economy.

No progress has been reported. Slovenia needs to adapt its legislation to the *acquis* and set up the institutions for implementing the common fisheries policy.

Energy

Energy policy

The 1998 Regular Report concluded that Slovenia had to continue its efforts notably to prepare for the internal energy market, to progress as regards emergency preparedness and to increase energy efficiency. Appropriate handling of nuclear safety standards had also to continue.

On 16 September the Slovene Parliament adopted the Energy Act, which should be considered as a major step for alignment with the electricity and gas directives. The Act foresees the establishment of an independent regulatory body, the Energy Agency, which will contribute to the establishment of an appropriate and efficient mechanism for regulation as required under the directives. Under the Energy act, the electricity market will be opened for domestically produced electricity 18 months after the entry into force of the act. Slovenia has chosen the regime of Regulated Third Party access to its networks.

Otherwise, substantial progress has taken place in some energy-related areas. The new mining act was adopted in July 1999, and this brings the provisions on exploration and extraction in line with the *acquis* and ensures now harmonisation with the Hydrocarbons Licensing Directive.

A new electricity tariff system was adopted in December 1998. This system will contribute to eliminating, over the coming years, the remaining price distortions in view of the correct functioning of the future internal energy market. Early 1999 studies have been completed on the country's Lendava refinery, which will be helpful for deciding on its future in the already over-saturated European refinery market.

Amendments to the Commodity Reserves Law were adopted in May 1999. These ensure the gradual build-up of security reserves in oil products, which will amount to 60 days' consumption in 2002.

Improvements in the area of energy efficiency are still needed although there has been notable progress through the development of energy efficiency programmes.

The restructuring of the electricity market is well under way. However, only partial privatisation has taken place as regards the oil derivatives distribution companies. The state still owns 45% of Nafta Lendava and between 90-100% of production and transmission companies.

Nuclear energy

In the field of nuclear safety, the Cologne European Council emphasised the importance of high standards of nuclear safety in Central and Eastern Europe and stressed the importance of this issue in the context of the Union's enlargement. It called on the Commission to examine this issue thoroughly in its next regular progress reports on the candidate countries.

Slovenia's nuclear reactor (a PWR unit of Western design) at Krsko (unit 1) provides 38 % of the country's electricity.

For countries where western-designed nuclear plants are in use, Agenda 2000 requested that developments should be monitored to ensure that operations comply with the appropriate safety standards. Technical assistance can be provided if necessary.

Slovenia continued the safety upgrading programmes of Krsko nuclear power plant. It has purchased new steam generators for the Krsko nuclear power plant, which will be installed during the regular annual outage of 2000. Extensive geological research is currently on-going to re-evaluate the seismicity of the ground at the Krsko nuclear power plant.

Slovenia signed in November 1998 an additional Protocol to its nuclear safeguards agreement with the IAEA. Slovenia also raised to 39.6 million € the amount related to responsibility for nuclear damage set out by the Vienna convention.

The issue of the construction of a new spent fuel storage capacity is still under discussion. In the meantime, the Krsko power plant has introduced a system of "dry-cask storage". In any case, Slovenia should aim to rapidly settle with Croatia the consequences of the dual ownership of the Krsko plant, particularly on matters such as nuclear waste storage.

Slovenia has ratified the Joint Convention on the safety of spent fuel management and on the safety of radioactive waste management, and acceded to the Paris convention on third party liability in the field of nuclear energy in March 1999.

The attention of Slovenia is drawn to the Council Conclusions of 7 December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the emphasis put by the Council on the need to develop further methods relevant to the realisation of a high level of nuclear safety. In this context, Slovenia, its nuclear regulatory authorities and nuclear operators are invited to provide regular information in response to corresponding requests from the Commission.

Conclusion

Slovenia is making progress as regards the energy sector. Further efforts are nevertheless necessary in the following areas: preparation of the internal energy market (electricity and gas directives) including the adjustment of monopolies, access to networks and energy pricing, establishment of an appropriate and efficient mechanism for regulation, emergency preparedness including the building up of mandatory oil stocks; restructuring programmes and state interventions in the solid fuels sector; improvement of energy efficiency.

No major problems are expected for Slovenia to comply with Euratom provisions, but the issues deriving from the dual ownership of the Krsko nuclear plant have to be resolved rapidly. However Slovenia should also fully accept the Euratom safeguards *acquis* including the principle that reports are sent directly by the operator to Euratom. Longer term solutions for spent fuel and nuclear waste will have to be found. For the safety authority, an increase of the salaries and an improvement in its financial stability would help to retain staff and increase assessment capability.

The attention of the Slovenian authorities is also drawn to the Council Conclusions of 7 December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the determination of the EU to keep under close review throughout the accession process the issues covered therein. In this context, the Slovene government, its nuclear regulatory authorities and nuclear operators are invited to provide regular information in response to corresponding requests from the Commission.

Transport

Slovenia has already reached a significant level of legislative harmonisation and integration in all areas of the transport *acquis*.

As far as *road* transport is concerned, Slovenia is following a realistic programme of alignment of legislation as regards safety, technology and environment. In September a law on dangerous cargo transport was adopted, which achieves further alignment in this area. Further approximation on the social *acquis* is necessary, namely the full application of the EU legislation on access to the profession.

Although approximation of legislation regarding *railways* is at an advanced stage it needs to be completed. Slovenia will also need to continue its planned reorganisation of Slovene Railways.

Progress is being made at a steady pace regarding *maritime* transport. Legislation in the maritime safety sector is almost completely aligned with that of the EU. The harmonisation of Slovenian legislation with international safety conventions has progressed well, namely with a view to fulfilling the conditions of the Paris Memorandum of Understanding on Port State Control. In this context, Slovenia ratified in early 1999 the 1988 Protocol to the International Load-Line Convention (1966), the 1988 Protocol to the Convention on Safety of Life at Sea (1974) and ILO Convention on Working Conditions for Sailors. However, amendments to existing legislation still need to be made, notably in the areas of vessel registration conditions and free movement of labour. The new Maritime Code has not yet been adopted.

No particular progress can be signalled in the field of *air* transport. It should be noted however that efforts have concentrated on the negotiations on a multilateral agreement on a European Common Aviation Area (ECAA). Slovenia is actively following the effective harmonisation of technical requirements and administrative procedures according to JAA (Joint Aviation Authorities) requirements. Furthermore, it is to be noted that the present administrative capacity within the Ministry and the Civil Aviation Authority still needs to be strengthened in order to be able to properly implement legislation and to cope with future EU membership requirements.

As far as *transport infrastructure* development is concerned, a good deal of progress has also been made, namely as regards the motorway building programme, roads and railways (in particular in Corridors V and X) as well as the port of Koper. Slovenia is actively participating in the TINA process.

Conclusion

The harmonisation of legislation in the transport sector continues to advance at a satisfactory pace. Significant progress is also being made as regards the upgrading of transport infrastructure. However, more effective implementation of legislation is needed in the aviation sector, as well as the completion of the restructuring of Slovene Railways. The administrative infrastructure to implement the *acquis* effectively has been partially established and the proposed plans appear realistic. Efforts should continue.

Small and medium-sized enterprises

Almost 98% of all enterprises in Slovenia are SMEs. They represent 40% of total employment and contribute 38% of GDP.

Promotion of enterprise development, including small and medium sized enterprises, is a medium-term priority in Slovenia's Accession Partnership, and encouragement of the development of SMEs is one of the key measures envisaged by the government 'Strategy for Small Business Development'. This strategy, under the responsibility of the Ministry of Small Businesses and Tourism, focuses on increasing the number of SMEs, increasing their proportion of value added in national income, improving their export potential, and targeting human resources development within SMEs. It is important to ensure a well-functioning coordination between the relevant Ministries in promoting SME development.

Slovenia has confirmed its interest in taking part in the Third Multiannual Programme for SMEs. Slovenia's participation in the programme should contribute in a positive manner to the European integration of business organisations and the SME sector.

3.5. Economic and social cohesion

Employment and social affairs

The overall employment and social situation in Slovenia was relatively satisfactory, with the exception of the area of Occupational Health and Safety.

In 1998 the average annual unemployment rate reached 7.9% (according to ILO methodology). The projection for 1999 are between 7.5-8.0%.

In October 1998 a new version of the Law on Employment and Insurance against Unemployment was adopted by the Parliament, as well as thirteen implementing regulations, issued by the Ministry of Labour, Family and Social Affairs. The amendments are designed to enable a more active employment policy, to promote re-employment and to discourage black market labour.

Slovenia is conducting with the Commission a joint review of its employment policy. A new Law on Wage Policy was adopted by Parliament in May 1999. At the same time, the Government adopted the programme for Active Employment Policy Measures.

In the field of *labour law*, the new framework law on labour relations still has to be adopted.

At national level the tripartite *social dialogue* functions well and social partner organisations are extensively consulted on relevant new draft legislation.

On *equal treatment* of men and women, new Law on Parenthood and Family benefits, which will not transpose the relevant Directive in its entirety, still has to be adopted as does the Law on Labour Relations. In addition, Slovenia needs to pass legislation to ensure equal treatment in occupational social security schemes.

Progress has been made in the approximation of *health and safety* legislation with the adoption of the new Law on Health and Safety at Work in June 1999. Nevertheless, the implementation capacity of Slovenia in this field still needs to be strengthened. On *public health*, Slovenia's Law Restricting the Use of Tobacco Products is still not in line with the *acquis*. Slovenia will participate from 1999 in the Community Programmes on Health Promotion, Combating Cancer, Drug Prevention and Prevention of Aids.

Regarding the free movement of workers, amendments to the Law on Foreigners and to the Law on the Employment of Foreigners have yet to be adopted.

On *social protection* and the co-ordination of social security schemes for migrant workers, Slovenia needs to ensure that its administration will be able to cope with the heavy burden that this co-ordination will place on the existing structures. Amendments to the Law on Social Assistance which aim to strengthen control mechanisms were adopted by Parliament in May 1999.

Slovenia ratified the European Social Charter in April 1999.

Conclusion

Slovenia has recognised the need to speed up legislative work in the social policy area. Approximation of legislation has advanced in particular with the adoption of the new Law on Health and Safety at Work, but substantial work remains to be done in this area and in particular with respect to the implementation of important parts of the health and safety at work *acquis*. There continues to be a need to strengthen the public employment service. Institutional,

judicial and administrative capacity to implement co-ordination rules in the field of social security of migrant workers will require adaptation of the social security administration and the further training of officials.

Regional policy and cohesion

The European Union supports the strengthening of cohesion, mainly through the Structural Funds. Slovenia will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

Slovenia has made good progress since the last Regular Report both as regards legislative aspects and institutional strengthening.

Slovenia's regional GDP per year was in the reference year 1996 at 67% of the EU average with variations from 50% in the Pomurska region to 84% in the Osrednjeslovenska region. It is expected that the whole territory of Slovenia will be considered as one single region designed in accordance to EU methodology (NUTS 2).

The new Law on the Promotion of Regional Development in July 1999. This law is based on the same principles as the EU Structural Funds and establishes a general administrative framework for the implementation of a regional structural policy. It foresees the creation of a Council for Structural Policy, which will act as national co-ordinating body and also provides for the establishment of a National Regional Development Agency under the authority of the Ministry of Economic Relations and Development, as well as individual local Regional Development Agencies.

A number of vital issues still need to be addressed, notably effective coordination and training, budgetary procedures in general and co-financing including multi-annual commitments in particular. In this context the adoption of the new Public Finance Law in September 1999 which provides to multi-annual planning represents a good progress. The National Strategy for Economic Development, the main indicative planning instrument, is not fully integrated with the sector operational programmes, particularly in terms of public finance. Long-term budgetary planning is conducted only for investment spending, targets are not always quantified, the system for the monitoring and evaluation of programmes is not complete, and internal and external financial control are not sufficiently well developed.

Slovenia has only limited experience in appraisal and evaluation procedures.

Conclusion

Slovenia has made good legislative progress in its preparations for regional policy. This legislation envisages the necessary administrative structures and procedures. It is now of great importance that the institutions envisaged by the new legislation are established both rapidly and effectively in order to strengthen Slovenia's administrative capacity to efficiently manage the pre-accession instruments, and subsequently to implement EU structural policy.

3.6. Quality of life and environment

Environment

Although Slovenia had already made some progress as regards the adoption of framework legislation, more legislative work needed to be done. The development of the administrative and financial instruments for the implementation of the *acquis* was one of the major tasks ahead.

Slovenia has made some additional progress in the alignment of its environmental legislation. It has adopted 13 legal acts in the field of water protection, three in the field of air protection, two in the field of waste management and one in the field of nature protection.

In September 1999 the Parliament finally adopted the National Environmental Action Programme (NEAP), presented by the Government in December 1998. This programme defines the aims, orientations and strategy for environmental protection and the use of natural resources for the coming ten years.

The integration of environmental aspects in other policy areas will be addressed through the implementation of the NEAP.

Other than the implementation of the single European emergency call number no other progress can be reported in the context of *horizontal legislation*.

In the *water* protection sector, despite the adoption of a number of legal acts that cover the emissions of substances in the discharge of waste water from certain sectors of industry (e.g. agro-food, chemical, etc.), there is still the need to introduce framework legislation.

Certain rules on *waste* management and on the management of waste oils have been adopted. Amendments to the legislation on import, export and transit of wastes have also been passed.

In the field of *industrial pollution* control and *risk management*, a number of amendments to the decree on the emissions from heating plants have been passed.

On *air quality* protection, Slovenia has adopted a decree on volatile organic compounds and a decision to implement certain provisions on the exchange of information and data, which also relate to future participation in the European Environmental Agency. A number of amendments to the decree on the quality of liquid fuels have also been passed. A law for the ratification of the international convention on the safe handling of fuels has been passed.

For the *chemicals* and Genetically Modified Organisms sector, the Law on Chemicals, which is based on EU legislation regulating the use of chemicals in the fields of health and the environment, was adopted in April 1999. Nevertheless, significant progress in alignment remains to be made in this sector.

Important progress has been made in the field of *nature protection* with the adoption of the Nature Conservation Act in June 1999. This law aims to protect the natural environment and regulates the preservation of bio-diversity on the basis of EU Directives, international conventions and regional development policy.

The construction of storage capacities for low and intermediate level radioactive waste and spent fuel for the Krško Nuclear Power Plant waste is pending, the KNPP spent fuel pool has

undergone re-racking to increase its capacity. Slovenia has ratified the Joint Convention on the Safety of the Spent Fuel Management and on the Safety of Radioactive Waste Management.

In terms of institutional capacity, the implementation and enforcement of environmental legislation are still weak. In this context, the partial consolidation of the environmental inspectorates is encouraging, and the government decision to recruit 88 new staff for the Ministry of Environment and Physical Planning in 1999/2000 represents an important step towards the solution of the permanent lack of staff of this body.

One of the vital issues when implementing the environmental *acquis* is to have a good estimation of the related costs. Slovenia has already established financial plans. The Slovene NPAA estimates that the alignment costs in the field of environment will amount to €2 720 million over a period of 15 years. However, a “directive by directive” estimate is still missing.

The issue of nuclear safety is dealt with in the energy section.

Conclusion

The existing level of formal compliance of Slovenian environmental legislation with the *acquis* varies greatly from sector to sector. In sectors such as water protection, nature protection and waste management, the level of formal compliance is already quite high, but some efforts still need to be made. Greater efforts are necessary in other sectors such as industrial risk management, and chemicals and Genetically Modified Organisms if Slovenia is to meet its own timetable for compliance. Many important pieces of legislation are still missing in these sectors.

Although overall required investment efforts to ensure compliance are rather high especially as far as waste water, IPPC and large combustion plants are concerned, Slovenia should be able to draw on the necessary resources.

Consumer protection

Slovenia has made some progress, in particular through the Law on Product Safety which was adopted in March 1999, and which aims to implement the directive on general safety of products, residual safety and protection of consumers. The Law on Chemicals adopted in April 1999 regulates the use of chemicals in the fields of health and environment.

Rules on labelling prepacked foodstuffs and the decree on the monitoring of pesticides in foodstuff and agricultural products were adopted in April 1999 to regulate consumer protection in the agro-processed food sector.

The Consumer Protection Act (which entered into force in March 1998) needs to be amended to ensure full alignment to the *acquis*, and new legislation is needed to transpose the Consumer Credit Directive. The Law on the Prevention of Limiting Competition adopted in June 1999 aims to transpose the Directive on comparative and misleading advertising.

Administrative structures need to be improved, in particular with respect to market surveillance of prices and Consumer Credit. In this context a Regulation on indication of price of goods and services entered into force in August 1999.

3.7. Justice and home affairs

The Regular Report 1998 concluded that in order to attain the medium-term priorities of the Accession Partnership, Slovenia needed to make a substantial effort in the areas of legislative policy (both accession to international legal instruments and adjusting domestic law, e.g. as regards asylum and drugs) and of training law enforcement staff.

There has been very considerable progress in the adoption and revision of legal instruments.

Immigration / Border control

So far as *immigration* is concerned, a new Law on Foreigners was adopted in July 1999 as well as the Law on the Status of Citizens of the other SFRY Successor States. Besides, readmission agreements have been concluded with the Czech Republic (March 1999) and Hungary (April 1999). Slovenia has now readmission agreements with 20 European countries and with Canada.

Slovenia still has to adopt the implementing provisions of the new law on foreigners and to undertake further efforts as regards the rules on entry for the purpose of gainful activity and for studying. The readmission agreements with Switzerland, Romania and Canada have to be reviewed since they do not provide for the readmission of third country nationals. Readmission agreements with Bosnia-Herzegovina and Russia, currently under preparation, have to be finalised and efforts should continue to conclude readmission agreements with those African and Asian countries whose nationals target Slovenia in rising numbers.

In June 1999, Slovenia annulled visa exemption agreements with FYROM and Turkey. Turkish citizens will need visas as of 1 December and citizens of FYROM since 1 September 1999 to enter Slovenia. Slovenia should continue progressive alignment of visa legislation and practice with that of the EU.

As regards *border control*, it appears that in 1998 13,740 persons were caught for illegal border crossings into Slovenia and that in the first three months of 1999 6,000 illegal crossing attempts were registered, mainly from the FRY, Romania, FYROM and Turkey.

The issue of final demarcation of the border with Croatia is still outstanding. Slovenia has still to adopt a new law on border control. Border controls must indeed be reinforced, especially at the green border with Croatia since Slovenia is becoming a transit country for illegal immigrants, mainly from Croatia and Hungary. Particular attention should be paid to the upgrading of the enforcing agencies (police and customs, borders guards) in terms of staffing, equipment and training.

Asylum

The number of asylum applications per year has increased significantly : 499 in 1998 (337 under the Geneva Convention and 162 lodged on humanitarian grounds) against 349 in 1997 (72 and 277 respectively). This trend has continued : in the first semester of 1999, 348 applications were registered (250 and 98, respectively).

The new Asylum Law was adopted in July 1999. It includes definitions on the status of a refugee/asylum seeker and of asylum. Basic principles such as the right to asylum, "non refoulement", co-operation with UNHCR, assistance to asylum seekers and safe third countries are included. Furthermore the administrative court will be the appeal instance instead of a Government commission.

Effort are still needed to train specialised agents to implement this Law and most likely to recruit additional staff as it appears that there is a big backlog of pending applications : 433 under the Geneva Convention and 213 on humanitarian grounds, out of which 21 and 169 respectively were lodged in 1997.

Police

Slovenia has taken measures to improve the authorities capacity to fight organised crime and corruption. In February 1999 the Government decided to take several detailed actions (e.g. preparing a methodology for gathering statistics on organised crime and corruption, preparing a code of ethic for public employees, and a security awareness campaign etc.)

In the short term, Slovenia still needs to focus on reinforcing the structures responsible for combating organised crime (with special emphasis on training specialist staff), and on ratifying the 1977 Council of Europe Convention on the Suppression of Terrorism.

The Slovenian legal framework as concerns the Council Directive 91/308/EEC on prevention of the use of the financial system for the purpose of money laundering is since some years in accordance with the *acquis* and with international standards. However some fine-tuning is still necessary in particular as far as a confiscation system is concerned.

Drugs

The draft laws in the field of drugs have not been adopted yet: a framework draft law on prohibited drugs, a draft law on the prevention of harmful use of prohibited drugs, a draft law on precursors and a draft law on the ratification of the Council of Europe Agreement on illicit sea trafficking. As Slovenia is not only an important transit country but is also becoming more and more a country of consumption, it should strive to ensure a quick adoption and implementation of the relevant instruments. Efforts are needed for a balanced and integrated approach towards the drug problem.

Judicial cooperation

The European Convention on Mutual Assistance in Criminal Matters (Council of Europe, 1959) was ratified in February 1999. (The functioning of the judiciary is described in chapter 1.1.)

Conclusion

Slovenia has made an impressive effort in the adoption of new legal instruments. This legislative progress has been complemented *by the creation of new structures in the field of immigration and asylum and by the allocation of some budgetary resources for*

immigrants' accommodation, border policing, recruitment and training of judges. An improvement of the judiciary in the area of penal cases has been registered.

Slovenia should now finalise its legal alignment by adopting legislation in the field of border controls and drugs. Slovenia should also make sure that proper structures are set up and implementing measures taken in all Justice and Home Affairs matters and that the necessary resources, training and equipment are made available. A sustained attention is still needed on border controls, fight against organised crime and operation of the judiciary.

3.8. External Policies

Trade and international economic relations

Slovenia's applied tariffs average (simple) 8.8% on all products: 13.1% on agricultural products; 6.1% on fishery products; and 7.8% on industrial products.

As a WTO Member, Slovenia already implements the Uruguay Round Agreements, but has yet to accede to the plurilateral Civil Aircraft Code and Government Procurement Agreement. Slovenia is a signatory to the General Agreement on Trade in Services (GATS). The new WTO round will provide an opportunity for Slovenia to progressively align its level of commitments in this area to the EC level. Slovenia has expressed its willingness to work closely with the EC in the preparation of, and during, the forthcoming Millennium Round, with a view to aligning positions and policies as closely as possible. Slovenia is prepared to co-ordinate with the EU its actions concerning the WTO Agreement for Textiles and Clothing (ATC), with a view to achieving consistency of commitments upon accession.

Slovenia has continued the process of alignment to the provisions of the EU's Common Commercial Policy. The issues of control of dual-purpose civil and military goods and technologies, and rules for the import and export of textiles and garments need to be addressed.

Slovenia has not signed any additional Free Trade Agreements (FTA) . The Free Trade Agreement with Croatia was ratified in March 1999, whilst the Free Trade Agreement with FYROM is pending ratification and is applied provisionally. Overall, in addition to its Association Agreement with the EU, Slovenia has signed Free Trade Agreements with 17 countries (4 with EFTA members, 6 with CEFTA members, and with Estonia, Latvia, Lithuania, FYROM, Croatia, Israel and Turkey).

Development

Slovenia has not yet defined which institution will take over the co-ordination of European Development Fund activities. At present no new institutions have been envisaged, although the chosen institution will have to be adequately reinforced.

Customs

Slovenian legislation in this field was partially aligned to the *acquis*. Further progress has been made. In July 1999 an amendment to the Customs Act entered into force. The respective implementing provisions were adopted in May 1999 together with a regulation on duty reliefs.

The amendment and the implementing provisions further align Slovene customs legislation with *acquis*, in areas such as Binding Tariff Information, Binding Origin Information, entry procedures, customs procedures with economic impact and customs value. However, alignment on free zones and customs warehouses is only partial.

Slovenia fully participates in the Pan-European system of Cumulation of origin, which has been applied since January 1999. In February 1999, following a positive evaluation on its readiness to participate in the Common Transit Procedure, Slovenia was granted observer status in three working groups of the Joint Committee of the Convention of 20 May 1987 on a common transit procedure.

In July 1999, a new law on the Customs Service entered into force. It provides the customs administration with a modern legal framework and will guarantee a uniform application of the customs and excise duty legislation. Moreover it defines the powers and responsibilities of customs officials. An information – Analysis Centre was established within the Customs Service, in order to collect, evaluate, analyse and distribute information.

Training activities of the Customs Administration have been directed to increased control at border crossings, and the fight against smuggling. In the area of computerisation progress was made in the handling of customs procedures.

The issue of duty free shops at land borders is dealt with under point 3.3 – Taxation.

Conclusion

Slovenia has made a valuable effort to iron out most of the major differences between its customs legislation and the relevant *acquis*. Slovenia should continue these efforts in order to reach complete harmonisation. The customs administration will also need to be strengthened, both in terms of resources and expertise.

Common foreign and security policy

Slovenia continues to orientate its foreign and security policy towards EU and NATO. It participates actively in the multilateral dialogue between the EU and the associated countries within the framework of the Common Foreign and Security Policy, including the regular meetings on Political Directors', European correspondents' and Working Group level. It has regularly aligned its positions with those of the EU and, whenever invited, joined the Union's statements, declarations and *démarches* including in the context of the UN and OSCE. Thus it aligned itself with the Common Position on Kosovo, the ban on Yugoslav flights and the oil embargo on Yugoslavia. Slovenia made an exception for Montenegro airlines with respect to CFSP declaration on the flight ban against the Yugoslav national airline. The Slovenian decision not to ban Montenegro airlines is to be seen in the context of Slovenia's general interest in maintaining particular economic relations with Montenegro.

The Kosovo crisis has highlighted Slovenia's important foreign policy role in South-Eastern Europe. Slovenia at an early stage fully supported positions by the EU and the Contact Group on the issue and the Government supported the UN Security Council resolution on Kosovo. The Government supported NATO by opening its airspace and argued in favour of an intervention.

Following an amendment to Common Position 96/184 concerning arms exports to the former Yugoslavia, Slovenia was exempted from the restrictive measures in August 1998.

On 1 March 1999 the Convention on Banning Land Mines entered into force in Slovenia. This bans the production, use, stock and export of anti-personnel land mines.

In the Kosovo crisis, Slovenia expressed support for NATO operations and opened its airspace for NATO flights. Slovenia participated in the OSCE mission in Kosovo. Slovenian troops participate in SFOR.

Slovenia strives to contribute to regional stability through a policy of good-neighbourly relations and regional co-operation, i.a. by participating in the Central European Initiative (CEI), the South EastEuropean Co-operative Initiative (SECI), the Royaumont process as well as, most recently, the Stability Pact for South-Eastern Europe. It engages in trilateral cooperation with Italy and Hungary and seeks to strengthen economic and political relations in particular with Bosnia and Herzegovina, FYROM, Albania and Montenegro.

An agreement to settle property issues was initialed with Croatia in June 1999. However, outstanding issues regarding the management and ownership of the Krško nuclear power plant, 1% of the land border and the maritime sea border in the Piran Bay and the debts of the Ljubljanska Banka still need to be resolved. On the issue of the maritime border in the Piran Bay, Slovenia and Croatia have agreed to engage the former United States Defence Secretary, Mr. William Perry as an international arbitrator, while to settle the problem of Ljubljanska Banka the two parties decided to seek an advisory opinion of the IMF.

In the context of its policy towards South-Eastern Europe, the Government consolidated and advanced the setting up of the International Trust Fund for Demining and Mine Victims Assistance. On 9 November 1998, Slovenia and the USA signed the agreement on the International Trust Fund, which had been set up on 11 March 1998. The aim of the Fund is to support the implementation of the Dayton agreement by financing demining activities and rehabilitation activities for mine victims.

3.9. Financial Questions

Financial control

Starting from a relatively low level of alignment, some progress has been made in this field.

The Court of Audit of the Republic of Slovenia operates on the basis of principles which are broadly in line with the EU *acquis*. It is in practice both functionally and financially independent of the government, whilst the range of its activities covers the full range of regulatory and performance audit set out in international standards. Certain adjustments remain to be made –

the Court's status needs to be formally changed to that of a National Audit Office so that it no longer issues decrees, formal follow-up procedures to audit findings need to be strengthened, and a number of individual internationally recognised standards need to be implemented. In addition, whilst the Court has benefited from a number of training events and the introduction of new computerised audit tools, it is still somewhat understaffed. Efforts need to be made to strengthen its institutional capacity.

As regards *internal* financial control, amendments to the Law on the Implementation of the Budget were adopted in December 1998. These establish a decentralised system of budgetary control as well as providing the basis for a standardised accounting system for all types of budgetary expenditure. However, the implementation of these changes has not yet fully taken place, and more effective development of internal audit within line ministries and at local level needs to be ensured with a particular focus on ensuring an adequate audit trail, checklists and a transparent system for dissemination and follow-up of control reporting. Moreover, further improvements to the internal control system are necessary within the Budgetary Inspectorate, particularly as regards *ex post* administrative and accounting control. In addition, the Inspectorate remains understaffed, and its institutional capacity needs to be strengthened. In September 1999 a new Public Finance Law was adopted by the Parliament, which determines, among other issues, new rules applicable to public funds, public institutions and agencies for financial control.

Conclusion

Slovenia has made some progress. Nevertheless, in the internal financial control in particular, significant efforts are still required to upgrade the financial control and audit functions and the professional level of the necessary staff in the perspective of the management of pre-accession funds and Structural Funds.

3.10 General evaluation

Slovenia significantly accelerated its overall legislative approximation effort and demonstrated impressive progress across most sectors of the *acquis*. Key parts of internal market legislation have been adopted. In the field of standards and certification, this includes the adoption of framework legislation, sector specific legislation and product liability legislation. Data protection legislation has been adopted. Important progress was made in capital liberalisation and the banking and securities sectors which together with changes in the company law have removed many of the restrictions on foreign companies doing business in Slovenia. The adoption of laws on anti-trust and on VAT/excise are two further important steps in alignment with the internal market *acquis*. Progress in alignment is also reflected in justice and home affairs where laws were passed on foreigners and asylum and measures taken to combat organised crime and corruption. Efforts have been sustained in the employment and social affairs area where the level of alignment to the *acquis* is already high. In environment, laws were adopted in the fields of water, air, waste management and nature protection and some progress was made in estimating costs and developing financial plans for alignment. The Customs Law was amended, bringing Slovene legislation and practice in this area further in line with that of the EU. Progress is being made in the veterinary and plant health fields but the pace of alignment needs to pick up as there is still a lot to do in the agricultural sector.

Slovenia still needs to put the legal framework for state aids in place. Attention needs to be paid to completing alignment in the areas of free movement of persons, capital and services. With regard to the latter, it is important that legislation on the insurance sector be adopted. Efforts are still needed as well to align public procurement and intellectual and industrial property laws. No progress has been made on aligning audio-visual legislation. The areas of border control and drugs require continued attention.

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).

4. Administrative capacity to apply the *acquis*

This chapter updates the information given in the Commission's Regular Report of 1998. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

For this year's report the Commission continued to work with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on the Ministry or organisation which is responsible for a specific part of the *acquis*, its legal powers, staffing levels and budget. As in the Member States each administration has to decide how to allocate scarce human and financial resources, ensuring that it has sufficient capacity to implement the *acquis*. There is no 'ideal' level of staffing and numbers alone are no indication of capacity to implement the *acquis* effectively. However, wherever they are available, staff numbers and changes in staffing levels are provided. It is clear that in areas where there is a heavy control and enforcement burden one or two people are not sufficient and in such cases very low staff levels can indicate a need to give greater priority to administrative capacity.

Many of the enforcement structures covered in this report have only recently been established. They are beginning to take decisions in *acquis*-related areas but it is often too early to assess the quality and compatibility of these decisions with the *acquis* or the information needed is not available. However, in some areas it is possible to provide data to illustrate that the *acquis* is becoming a living and integral part of domestic decision-making. During the coming year the Commission will continue to work with each of the candidate countries to build up a data base on administrative capacity and information on enforcement which will allow the Union to assess operational capacity to implement the *acquis*.

In the 1998 Regular Report, the Commission concluded that :

“Slovenia has made little progress since the Opinion in general public administration and judicial reform. The measures taken to enhance administrative capacity vary between sectors. While there has been some progress in the process of institutional consolidation in employment and social affairs, agriculture, customs and environment areas, concerted efforts still need to be made in the internal market, taxation, state aids and justice and home affairs areas. There is a general need for clarification in the scope of responsibilities of the various administrative structures and for more and better qualified staff.”

4.1 Administrative structures

Slovenia's administrative capacity to apply the *acquis* is still very weak in some areas. Even if, in respect to some of the most urgent tasks, the Slovene authorities have become aware of the

need to urgently reinforce the staff, training and equipment of certain bodies and institutions, overall public administration reform has not showed sufficient progress.

This is partly due to the lack of consensus on fundamental issues (e.g. scope of civil service and salaries), as well as lack of political commitment. The implementation of public administration reform has slowed down. The major progress achieved was the adoption of the General Administrative Procedures Law in September 1999. This Law regulates all administrative procedures which must be used by the Government institutions as well as local communities' institutions when deciding on administrative matters. For the first half of 1999 the Government approved the opening of 247 additional posts for experts in various Ministries. However very few posts have been filled.

The Programme Council for Public Administration Reform, formed last year, has not become operational. The subcommittee of senior civil servants does not meet regularly and has produced few concrete results. The draft Civil Service Law has not been adopted by the Government. The same goes for the new draft law on Government, which is designed to regulate relations between ministries.

The implications of membership of the EU have not been taken fully into account in that no comprehensive approach or training strategy for the whole of the Slovene civil service have been put in place, although they are being prepared. This gap will become more and more apparent as the date of accession nears.

In this context, Slovenia's capacity to properly implement and enforce the *acquis* is not ensured. Given the small size of Slovenia's administration, its authorities will have to make particular and urgent efforts for Slovenia to be able to implement and enforce the *acquis communautaire* in a reliable and sustainable manner by the time of accession.

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

The uniform application of EC Law: The number of judges' posts has increased slightly and an improvement (i.e. shortening the length of procedures) in penal cases has occurred. In civil cases, there have been no changes, whilst the procedures for commercial cases are still long.

By the end of 1998, 682 judges' posts and posts of other court officials at courts were occupied (89.5%). A generally high number of judges per capita and the larger number of posts for local courts have not prevented a comparatively high increase of cases per judge at local courts. The average workload per judge, particularly in the local courts, is higher than in 1997. The overburdening of the judiciary remains a problem, as reflected in the continuing increase in the case backlog, a situation which is indicative of the fact that the judiciary reform has not yet produced the desired results.

The function of bailiff has been introduced by the Law on Civil Procedure, aiming at facilitating the execution of judicial civil sentences and thereby reducing the overburdening of the courts. However the bailiff have not been nominated yet. The Ministry of Justice has produced during the first semester of 1999 three regulations on the competencies and conditions for this function,

as well as on the specifics of the exam that has to be passed to be nominated by the Ministry of Justice.

Some positive steps have also been taken as regards the training of the judiciary. The Judiciary Training Centre was set up to provide permanent professional training for officials and employees of the judiciary, particularly in EU law and information technology. A five-year framework programme and an annual programme of education and training were prepared. Funds have been allocated from either the Ministry of Justice budget or from international institutions. Nevertheless, the Centre still has to start operations and there is still no continuous training programme for judges.

The body responsible for checking conformity with the *acquis* is the Office for Legislation (OFL). The function of co-ordinating the EU accession process belongs to the Government's Office for European Affairs, while the responsibility for drafting individual legislative acts falls to the line ministries.

In November 1998 the Government adopted the format and the procedure for a European Compatibility Assessment, which requires that all new drafts as from 1 January 1999 contain information on the compatibility of the draft in question with EU law and with the Europe Agreement. The Office's staff has been increased by 5 in the last year and the OFL currently employs 27 people.

Human resources constraints in Slovenia's judicial system limit its ability to apply the *acquis* effectively. The training of judges in EC law will require an important investment in the development of the capacity of the judicial system.

The Slovene judiciary remains overburdened; the number of cases and the backlog have increased. Thus the need to accelerate the reform persists.

Single market : The legal basis for *Public Procurement* is still the Law on Organisation and Working Areas of Ministries and the Law on Public Procurement (1997). The institution responsible for public procurement is the Ministry of Finance, which co-operates within the relevant departments within each sectoral ministry. A number of implementing regulations have been adopted, but Public Procurement Act has still not been revised.

The National Audit Commission for Public Procurement (operational in 1998) protects bidders in public procurement procedures. According to the law, the Commission is an independent professional body with the right to suspend tender decisions. Protection is also guaranteed by judicial procedures, under a new law on enforcement and insurance, which provides the possibility to suspend procedures and the conclusion of a contract by judicial act. The President and 10 Members of the Commission were appointed by a Parliamentary Decree using the same procedures for the appointment of judges.

In 1998, 4894 public invitation tenders were published. Of these, 86 were rejected and 58 cancelled. Up until 31 August 1999, 3612 public invitations tenders were published. Of these, 83 were rejected and 31 cancelled.

Staffing levels remain clearly insufficient. Significant training will also be required within the sectoral ministries for staff involved in executing the new procurement procedures. The Public

procurement department within the Ministry of Finance will need to employ at least two new experts.

Progress remains insufficient in this area, both regarding the adoption of the acquis and Slovenia's administrative capacity in this field. An agency responsible for carrying out public procurement procedures has not yet been established, and there is a need for a strengthening of the administrative capacity and further training of the increased staff.

The Office for *Intellectual Property* (OIP) is established within the Ministry of Science and Technology. The Office employs 57 staff.

The legal basis for the work of the Office is the Law on Organisation and Working Areas of Ministries, the Law on *Industrial Property* (1992/1993) and the Law on the Protection of Intellectual Property/copyright (1995). The OIP is mandated to perform duties related to the protection of intellectual property and protection of copyright.

The role of enforcing the legislation is principally dependent on the work of the judiciary, the District Court of Ljubljana being the sole court mandated in this field.

The Office has played an effective role in harmonising the relevant areas of legislation and appears to have the capacity to effectively implement the acquis. The main issue remains the need for the Office to be reinforced, particularly in terms of the training of the staff.

The Law on *Data Protection* was adopted in July 1999. The implementation of this Law will demand the establishment of a Department for Personal Data Protection within the Ministry of Justice.

The Slovene Standards and *Metrology* Institute is established within the Ministry of Science and Technology. The Standards and Metrology Institute is a public agency (accountable to the Ministry of Science and Technology) entrusted with both *standardisation*, technical regulation in the field of legal metrology, certification and accreditation. The Standards and Metrology Institute also has the overall role of co-ordinator for harmonisation of the Slovene technical regulations with the relevant areas of the *acquis* and providing technical support to sectoral ministries. The Institute employs 85 people.

The legal basis in this field was previously the Law on Organisation and Working Areas of Ministries (1994). The adoption of the Laws on Standardisation, Accreditation and Conformity Assessment in July 1999 provides the necessary legal basis for the re-organisation of the institutions in this field to ensure independence in decision making and a functional separation of the activities related to implementation/enforcement as regards regulatory, standardisation, accreditation and certification functions.

In spring 1999 the Ministry of Economic Relations and Development established a Department for the Free Movement of Goods with responsibility for co-ordinating this sector. The Department has a total of 9 staff. In terms of the institutions foreseen by the new laws, the Slovene Institute for Standardisation is to be established as a result of the Law on Standardisation which was adopted in July 1999. Staff levels will have to be increased in the area of standardisation.

In addition, the Law on *Accreditation* adopted in July 1999 envisages the establishment of a new independent National Accreditation Office. In the area of Metrology and pre-packed products the staff level also needs to be increased.

Earlier in 1999, the Department for Conformity Assessment was established within the Ministry of Economic Relations and Development. It currently employs 6 experts and is responsible for ensuring the compliance of technical legal acts relating to products subject to the requirements of safe operation and use. It is also responsible for ensuring market supervision with regard to compliance with technical legal acts relating to products. Increased staffing and staff training are necessary.

Increased staffing and staff training are also needed to strengthen market surveillance.

There has been good progress in this area in that the adoption of the above mentioned three new Laws provide the necessary legal basis for the re-organisation of the institutions in this field to ensure independence in decision making and a functional separation as regards regulatory, standardisation, accreditation and certification functions. However, the reorganisation of the institutions is still to be achieved, and additional staff will be required.

The institution responsible for banking supervision is the Banking supervision department (BSD) of the Bank of Slovenia. In June 1998, the Bank of Slovenia endorsed the Core Principles of Basle as the key guidelines to perform its supervisory tasks. A constant supervision over banks and savings banks is ensured by regular reporting and checking of off-balance records as well as on-site controls. In 1998, 30 on-site bank examinations were carried out. Fourteen of these were full-scope examinations, and 16 were targeted examinations. One bank was liquidated in the second half of 1998 as conditions for its further operation were not met. In the first half of 1999, 16 on-site bank examinations were carried out. Six of these were full-scope examinations and ten were targeted examinations.

The BSD employs about 30 people with university degrees. Contacts have been established with various competent authorities of Member States.

The Law on *Insurance* and the Law on the Ownership Transformation of Insurance Companies were adopted in July 1999, laying the foundations for the restructuring of the sector.

The powers of the Securities Markets Agency were reinforced by the provisions of the 1999 Securities Markets Act. The Agency conducts on-site inspection and may withdraw licences in case of serious violations. Additional human resources (at present 23 persons) will be needed to increase the efficiency of supervision. The Agency is financed from the fees of companies, with supplementary funds from the government budget. It co-operates with other domestic supervisory authorities; a Protocol of Co-operation with the Bank of Slovenia has been signed. As regards co-operation with foreign supervisory bodies, the Agency is currently negotiating Memoranda of Understanding with Austria and Croatia.

The new *Securities Market Act* was adopted in June 1999. The Agency for the Securities Market is already in place but requires additional staff.

Progress needs to be made in strengthening the independent supervisory capacity of insurance markets, notably that of the Insurance Supervisory agency.

In the area of mutual recognition of professional qualifications, the necessary institutions (Agency for mutual recognition of professional qualifications, professional qualifications inspectorate body and adequately trained staff in sectoral ministries) still need to be established.

As regards the free movement of workers, there is a need for further strengthening of the Employment Service. For details see the section on Free Movement of Workers.

In relation to the co-ordination of social security systems, institutions will have to be strengthened, including the training of staff and staffing in relevant institutions as well as social court judges, to implement the *acquis*. Furthermore, the establishment of organisational units within the Ministry of Labour, Family and Social Affairs is needed.

Little progress has been made in reinforcing Slovenia's administrative capacity in this field to apply and enforce the acquis in this field.

The Foreign Exchange Inspectorate is already in place within the Ministry of Finance. The institutions needed for EMU are also already in place – namely, the Bank of Slovenia, the Ministry of Finance and the national Statistical Office.

While no new institutions are needed in this field, a number of new staff will need to be recruited, particularly within the Ministry of Finance.

Competition: The Slovene Competition Protection Office was created in 1994 and is established within the Ministry of Economic Relations and Development. Currently the Office has nine employees, having been reinforced by the addition of 3 new staff at the beginning of June 1999. Since November 1998, the Office has issued decisions on ten notified merger and take-over cases, on one non-notified take-over attempt, on two cases of abuse of the dominant position, on one revocation of a selected exemption, and took one anti-dumping action. One of the decisions has been appealed before a civil court in October 1998.

The administrative capacity in this area remains relatively weak due to insufficient staff, the increasing number of cases, weak co-ordination and limited training of staff. However, the Office is increasingly pro-active and its independence and legal authority (in particular to undertake investigations) were reinforced by the new legislation.

In the field of state aid, the government adopted a decision in October 1998 on the establishment and tasks of the Commission for State Aid Control. The head and members of the Commission were nominated in March 1999, and the standing orders establishing the Commission's rules of procedure were adopted in June 1999. The Commission operates under the direct responsibility of the Ministry of Economic Relations and Development, and is composed of representatives of key Ministries. The Commission's task is to co-ordinate work in the preparation and elaboration of inventories and reports on state aids, adopt rules concerning the notification of measures that may constitute state aids, issue opinions on such notified measures, and provide expert opinions and proposals regarding the elaboration and implementation of state aids policy. The Commission produced the first state aids Survey for

Slovenia in June 1999, and is scheduled to produce the first comprehensive national state aids inventory by the end of 1999.

The Internal Market Department within the Ministry of Economic Relations and Development was established to ensure support to the State Aid Commission, and currently employs one economist and one lawyer. This is still largely insufficient, since the total staff that has been considered necessary is 23.

Considerable progress has been made in the field of competition, but the need for urgent strengthening of the institutions remains. Slovenia must pay particular attention that the Competition Protection Office is reinforced to ensure effective anti-trust surveillance, and that the recently-formed Commission on State Aids develops into an effective control body. For this to occur, there is a need to establish a coherent legal framework for state aid monitoring, including a mechanism for systematic assessment of the compatibility of aid projects.

Telecommunications: The Telecommunications Administration is established within the Ministry of Transport and Telecommunications. The regulator is separated from the operator (Telekom Slovenije) but is not yet separate from the Ministry.

Three additional staff have been employed taking the total to 30. The regulator has issued a number of decrees based on the Law on Telecommunications.

Not enough progress has been made in this area regarding administrative capacity. An independent regulatory body needs to be established, and the number of staff needs to be significantly increased.

Audiovisual services: There are no line ministries responsible for the implementation of tasks in the field of public media. The National Broadcasting Council is responsible for decision-making as far as technical issues in the fields of radio and television are concerned.

The necessary institutions are still to be established. The proposed amendments to the Media law, which foresees an enhanced role for the National Broadcasting Council and the creation of a special media section within the Ministry of Culture to monitor and implement media regulations and to co-operate closely with the Broadcasting Council, have still not been adopted by the Parliament.

Taxation: The Tax Administration, under the responsibility of the Ministry of Finance, deals with tax implementation issues. On 31 December 1998, 2,397 people were employed by the Tax Administration (2300 permanently, 97 temporarily of which 24 were trainees). The entry into force of the Law on VAT on 1 July 1999 necessitated a reinforcement and re-organisation of the Tax Administration.

A new organisational structure was therefore set up which entailed the transfer of operational tasks from local tax units to tax offices. Training has been provided for senior staff, instructors and tax collectors. The Tax Administration carried out the registration process for VAT payers, and adapted its computer system to take into account the required changes. 78 new staff are being taken on during 1999.

As regards measures to prevent people from working outside the formal economy, inspectors of the Tax Administration have brought charges against 561 offenders, banned operations in 184 cases and imposed penalties in 316 cases.

Further reinforcement of the Tax Administration needs to take place, both in terms of staff, and professional capacity. Attention should therefore focus on the training of employees to ensure that legislation is properly implemented and enforced.

Agriculture : The *Veterinary Service* of the Republic of Slovenia is organised under the Veterinary Administration of the Republic of Slovenia (VARs), a part of the Ministry of Agriculture. Amendments to the Veterinary Practice Act are necessary to enable the Veterinary Service (Veterinary Administration of the Republic of Slovenia, Animal Health Centre of Slovenia and Veterinary Institute of Slovenia) to operate under the unitary EU market conditions. The responsibility for Animal Health Centre should be transferred to the Veterinary Administration and approved veterinarians appointed to issue health certificates and international attestations. The official veterinary laboratories need to be accredited, adequately equipped, staffed and organised so as to be directly supervised by the central authorities. The total number of state veterinary officers is 117. A Plant Protection and Seeds Administration needs to be established and staffed.

The responsibility for the implementation of the agricultural *acquis* is divided between three ministries (Ministry of Agriculture, Food and Forestry, Ministry of Environment and Ministry of Economic Relations and Development). Consequently there is a need for inter-ministerial co-ordination in this field. Test laboratories (in the food-processing sector) only partially satisfy the required standards and are not organised in a manner comparable to similar laboratories in the EU.

Slovenia's agricultural information system partly complies with the requirements of the EU legislation. The collection of information on agricultural market and prices has no adequate legislative basis. The veterinary procedures at the border inspection posts are similar to those of the EU, but there are no inspection and storage facilities on the borders. The decision to build new infrastructure facilities along the Croatian border has not yet been carried out. As regards animal identification, the two existing databases, one for veterinary and one for zootechnical matters need to be merged into one database.

The legislative framework (Amendment to the Law on Organisation and Work Area of the Ministries Act) has been changed to allow for the creation of the Agency for Agricultural Markets and Rural Development (AAMRD). This Agency is to implement the SAPARD pre-accession aid and in the future carry out the measures of the EAGGF. The Agricultural and Market Inspectorates need to be unified.

Rural development measures are carried out within the Fund for Regional Development and the Maintenance of Population Density of the Slovene Countryside.

The Ministry of Agriculture has recruited 30 additional staff.

A Chamber of Agriculture and Forestry has been set up to help to organise the agricultural sector and be a provider of services to farmers. The precise tasks of the Chamber are still to be elaborated.

The veterinary service, in particular the Animal Health Centre and the Veterinary Institute, needs to be adequately regulated. No progress has been achieved in implementing the decision to build new infrastructure facilities along the Croatian border. The creation of the Agency for Agricultural Markets and Rural Development provides the basis for implementing the common agricultural policy (market, price and structures); however, it needs to be accredited, organised, adequately equipped and staffed in order to perform its assigned tasks.

Energy: The existing institutions responsible for the implementation of legislation in the field of energy are the Directorate for Energy Supply, the Agency for Efficient Energy Use and the Directorate for Mineral Resources, which are under the responsibility of the Ministry of Economic Affairs, and the Nuclear Safety Administration, which is under the responsibility of the Ministry of Environment and Physical Planning.

The 1999 new Energy Act foresees the creation of an independent regulatory body, which will contribute to establishing an appropriate and efficient mechanism for regulation as required under the gas and electricity directives. It is intended, under the new Commodity Reserves Act, to set up a body which should deal with oil stocks.

Transport: The responsible authority in Slovenia is the Ministry of Transport and Communications. Within this ministry, the relevant responsible bodies are the Roads Directorate, the Maritime Transport Administration, the Civil Aviation Authority, and the Transport Inspectorate. In addition, the Ministry of the Interior, the Ministry of Labour, Family and Social Affairs, and the Standards and Metrology Institute have responsibility for monitoring legislation in a number of areas.

In general, the necessary administrative structures for meeting the acquis requirements are in place. However, on aviation, the present administrative capacity (within the Ministry and the Civil Aviation Authority) needs to be strengthened. On railways, improvements are needed as regards the administrative capacity for the implementation and supervision of regulations.

Employment and social policy: The principal institutions in the area of occupational *health and safety* are the Office for Safety and Health at Work (under the competence of the Ministry of Labour, Family and Social Affairs, MOLFSA) and the Labour Inspectorate (also under the competence of MOLFSA).

The Office for Health and Safety at Work was established in October 1995. Its legal basis is the law on Organisation and Areas of Work of the Ministries, which was adopted by Parliament in 1994.

The Labour Inspectorate was created in 1994. The Inspectorate is an independent body within the Ministry of Labour, Family and Social Affairs with its own sub-budget, and it employs 95 persons of which 74 are inspectors.

Amendments to the Employment and Unemployment *Insurance* Act increased the competencies of the National Employment Office (NEO). Furthermore, the NEO was reorganised, providing the possibility for authorised organisations (other than the NEO) to

perform tasks in the area of employment, with the aim to increase competition and enhance quality and effectiveness. The number of staff was increased from 893 in October 1998 to 906 in June 1999.

Some progress has been made regarding the administration of social security for migrant workers. The relevant administration is in place: the Institute for Pension and Invalidity Insurance; the Institute for Health Insurance; the NEO; the Ministry of Labour, Family and Social Affairs and the Ministry of Health. Training for the application of regulation 1408/71 (in the field of co-ordination of workers' social security rights) is underway in the context of the Consensus programme. However, the experience of social security payments is still limited.

There has been some progress regarding recruitment for key authorities in the area of employment and social affairs. The staffing of the Ministry of Labour, Family and Social Affairs was increased from 125 employees to 137. The Labour Inspectorate increased its staff from 96 to 99. The Office for Safety and Health at Work has taken on 7 additional people to its previous staff of 45.

There is still a need for additional personnel in the Ministry of Labour, Family and Social Affairs, the Labour Inspectorate, the Centre for Professional Training, the Employment service, the Fund for Human Resources Development, the Government Office for Women's Policy, the Institute of Public Health and the Occupational Medicine Institute.

Regional policy and cohesion: The preparation and co-ordination of regional policy is the responsibility of the Ministry of Economic Relations and Development. The recently adopted Law on Balanced Regional Development (July 1999) envisages the establishment of a Council for Structural Policy to act as national co-ordinating body, together with the establishment of a National Regional Development Agency as well as individual local Regional Development Agencies. These institutions are designed to co-operate with the Fund for Regional Development and the Preservation of Rural Settlements in the implementation of structural policy.

The Department within the Ministry of Economic Relations and Development responsible for implementation of the Law on Balanced Regional Development has 9 staff. The Phare Cross Border Co-operation Implementation Unit, which is designed to form the basis of the National Regional Development Agency by the end of 1999, also has 9 staff.

The institutions recently created by the new legislation should be quickly established to ensure that Slovenia effectively develops its administrative capacity to efficiently implement EU structural policy. Additional staff are needed for these purposes, and they will need to be effectively trained to ensure that the relevant administrative, financial and management structures are effectively established.

Environment: The Ministry of Environment and Physical Planning is the responsible body in the field of environment. It has produced the National Environment Action Programme (in December 1998), and has issued a range of environmental regulations in a number of sectors. 13 new environmental inspectors have been appointed in 1999, and staff at the Ministry have undergone training. However, the planned reform and consolidation of inspectorates and of the enforcement system in general has not taken place. The low level of enforcement remains a key problem in Slovenia.

Slovenia still needs to significantly reinforce its institutional capacity in this field. New institutions need to be established (an environmental agency which will be responsible for planning, management and protection, as well as a body responsible for the protection of nature). It is important that adequate funds to ensure the effective functioning of these bodies are provided.

Specialised staff are still lacking in the fields of water, nature protection, genetically modified organisms, waste management, air quality and nuclear safety. Furthermore, Slovenia lacks the relevant administrative/technical structures and expertise to implement the Bird and Habitat Directives. A system for integrated industrial pollution control and risk management and related bodies also needs to be set up.

Slovenia needs to make significant efforts in the recruitment of new staff, in their effective training, and in the provision of adequate financial resources to ensure that institutional capacity to monitor and implement legislation is sufficiently developed.

Consumer protection: The responsible body in this field is the Office for Consumer Protection which is within the Ministry of Economic Relations and Development. The current level of staffing within this body is four, with one lawyer having been recruited in June 1999. The Office provides co-financing for independent consumer organisations. A network of consumer advice centres has been established under the initiative of the Slovene Consumers Association.

The institutional capacity of the Office of Consumer Protection needs to be reinforced. It is at present understaffed, and still lacks the required technical expertise to develop, implement and enforce policy in the full range of consumer protection areas. Therefore, new staff need to be recruited and trained. In addition, awareness of consumer protection issues within the judiciary should be improved.

Justice and home affairs:

The new Law on Foreigners, adopted in July 1999, sets up a Centre for Deportation in the currently existing Transit Home for Foreigners. The Transit Home is split in two departments, the Centre for Deportation, regulated by the above law and the *Asylum* Home, regulated by the Law on Asylum.

The Law on Asylum (adopted in July 1999) also establishes an information and documentation centre in the field of migration, with the task of developing a methodology for gathering, analysing and communicating data on asylum, refugees and migration movements between the EU and the institutions concerned.

Additional funds (€1.7 Million) for activities concerning illegal migration have been approved by the Government to cover costs for overtime of policemen along the border and temporary lodging for immigrants.

During 1998, the National *Money Laundering* Prevention Office received reports of 69 suspicious deals (representing an increase of about 25 percent from 1997) and managed to close 57 cases of which 20 were reported to the crime investigation police (and the public prosecutor).

There remains a need for increased capacity for *border* management and control (both staff and equipment), particularly in light of the recent developments in migration. Shortage of personnel at the borders with Croatia and Hungary has thus far been compensated for by personnel changes from the border with Austria and Italy. In 1998, Slovenia concluded an agreement on common border control with Austria which has contributed to alleviating the personnel problem.

As stipulated in the new Law on *Police* (adopted in July 1999) the Ministry of Interior prepared a plan on organisational changes. These changes are still to be carried out, including the creation of special units for the fight against corruption and the fight against terrorism, the creation of specialised units at the regional level dealing with organised crime and the setting up an anti-corruption unit for the fight against organised crime.

Good progress has been made with the adoption of necessary new Laws. Institution building, to ensure Slovenia's capacity to implement and enforce the acquis, will still require considerable investments in terms of staff, training and equipment.

Customs: The Customs Administration, under the responsibility of the Ministry of Finance, deals with customs implementation issues. It currently employs 2,271 staff. The adoption of the Law on Excise Duty at the end of 1998 and amendments to the Customs Law in April 1999 have led to a re-organisation of the Customs Administration. This has been enacted in the Customs Service Law adopted in June 1999.

Reforms which have already been carried out include the establishment of a department of excise, upgrading of the Customs information system, the establishment of ten regional tax offices, and the establishment of nine local area networks (to connect customs offices/border points to an information system). Twelve new staff were reallocated to the Investigation service, and within this, an Information-Analysis centre was established. The general IT network was upgraded.

Good progress has been made but further reinforcement of the Customs Administration needs to take place, particularly in terms of institutional capacity, in order to ensure that Slovenia effectively implements the recently-adopted legislation, as well as new changes to the implementing system which will occur as a result of accession.

Financial control: In the field of *external* financial control, the responsible body is the Court of Auditors. This is an independent body which reports to the National Assembly. Currently there are 86 employees, of which eight are members of the Court and 23 are support staff. The remainder are auditors. In practice, the Court is both functionally and financially independent of the government, and the range of its activities covers the full range of regulatory and performance audit set out in international standards. The Court has benefited from a number of training events and the introduction of new computerised audit tools.

In the field of *internal* financial control, the Budgetary Inspectorate within the Ministry of Finance is the body responsible for budgetary control. Amendments to the Law on the Implementation of the Budget at the end of 1998 established a system of decentralised budgetary control and a uniform accounting procedure. However, these amendments have not yet been fully implemented.

Certain adjustments remain to be made to the status of the Court of Auditors – its role needs to be formally changed to that of a National Audit Office and formal follow-up procedures to audit findings need to be strengthened. In addition, the Court is understaffed and capacity therefore needs to be reinforced.

As regards internal financial control, efforts need to be made to implement the system established by the legislation adopted at the end of 1998, to ensure that effective internal audit occurs in a decentralised manner, both within line ministries and at local level. Institutional capacity within the Budgetary Inspectorate needs to be reinforced, both in terms of staff and training. This is necessary both in light of the new system that is being implemented, but also because of the requirements arising from Slovenia's involvement in the EU's pre-accession instruments.

C. Conclusion

Slovenia fulfils the Copenhagen political criteria. Two areas which still need attention are the streamlining and speeding up of the judicial and parliamentary processes.

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

Slovenia has maintained macroeconomic stability. The reform process has been reinvigorated in recent months by the adoption of several important pieces of legislation. Progress has been made in reforming the financial sector, notably with the adoption of laws on banking and foreign exchange. A major reform of the tax system has been implemented with the introduction of value added tax. The government reached an agreement with employers and employee representatives on pension reform. Measures have also been taken to remove some restrictions on capital inflows.

Slovenia has followed a gradual approach to structural reform. This needs to be speeded up in order to take greater advantage of the growth potential of the economy. Priority should be given to the privatisation of state assets, including the two state banks. Measures are needed to improve corporate governance in particular in state-owned and newly privatised firms. Restructuring of public utilities is necessary. The legal environment for enterprises should be further improved

Slovenia significantly accelerated its overall legislative approximation effort and demonstrated impressive progress across most sectors of the acquis. Key parts of internal market legislation have been adopted. In the field of standards and certification, this includes the adoption of framework legislation, sector specific legislation and product liability legislation. Data protection legislation has been adopted. Important progress was made in capital liberalisation and the banking and securities sectors which together with changes in the company law have removed many of the restrictions on foreign companies doing business in Slovenia. The adoption of laws on anti-trust and on VAT/excise are two further important steps in alignment with the internal market acquis. The impressive progress in alignment is also reflected in justice and home affairs where laws were passed on foreigners and asylum and measures taken to combat organised crime and corruption. Efforts have been sustained in the employment and social affairs area where the level of alignment to the acquis is already high. In environment, laws were adopted in the fields of water, air, waste management and nature protection and some progress was made in estimating costs and developing financial plans for alignment. The Customs Law was amended, bringing Slovene legislation and practice in this area further in line with that of the EU. Progress is being made in the veterinary and plant health fields but the pace of alignment needs to pick up as there is still a lot to do in the agricultural sector.

Slovenia still needs to put the legal framework for state aids in place. Attention needs to be paid to completing alignment in the areas of free movement of persons, capital and services. With regard to the latter, it is important that legislation on the insurance sector be adopted. Efforts are still needed as well to align public procurement and intellectual and industrial property laws. No progress has been made on aligning audio-visual legislation. The areas of border control and drugs require continued attention.

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).

D. Accession Partnership and National Programme for the Adoption of the *Acquis* : global assessment of implementation

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's Opinions,
- the financial means available to help candidate countries implement these priorities,
- the conditions which will apply to this assistance.

Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how it would deal with the Accession Partnership, the timetable for implementing its priorities and human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership : Assessment of short and medium-term priorities.

Short-term priorities

The short-term priorities of the Accession Partnership⁶ and an assessment of the progress made concerning their fulfilment are indicated below.

In order to address the short-term Accession Partnership priorities which were not met in 1998, the Government drafted a special programme for 1999 covering 82 acts which have been given priority for discussion by the Government and the National Assembly. This programme was incorporated in the Republic of Slovenia's National Programme for the Adoption of the *Acquis*.

- **Economic reform** : *establishment of medium-term economic policy priorities and joint assessment within the framework of the Interim/ Cooperation agreement; action on market-driven restructuring in the enterprise, finance and banking sectors and preparation of pension reform.*

Assessment : Concerning the establishment of medium-term economic policy priorities, the Government adopted the Joint Assessment on 1 October 1998 and implementation started in 1999. Some progress has been achieved in the preparation of the privatisation of the banking sector, which has not however, started yet. No progress has been made in the consolidation and privatisation of the insurance sector. Supervisory capacity, notably with regard to insurance markets, still needs to be strengthened. The new Banking Law was adopted. Legislation on pension reform has not been adopted yet. Therefore, this priority has been partially met.

⁶ Council Regulation 622/98, OJ L85 of 20 March 1998

- **Reinforcement of the institutional and administrative capacity** : *in particular introduction of civil service act, improvements in the areas of the judiciary, of land registration, phytosanitary and veterinary administration, particularly as regards facilities at the external borders, financial control and audit functions, institutional strengthening in the area of environment, being to set up structures needed for regional and structural policy.*

Assessment : The introduction of a Civil Service Law has again been postponed. There have been some improvements in the judiciary (new judges have been nominated, vacancies have been filled, and training has been organised). The new Penal Code and the new Penal Proceedings Law were adopted by Parliament. The Law on Civil Procedure was adopted. There has still been no concrete improvement in the area of land registration.

Regarding the phytosanitary and veterinary administration, a Government decision was taken for co-financing the facilities for inspection at the 3 Border Inspection Posts with Croatia (Obrezje, Gruskoje and Jelšane). However, the decision has not yet been implemented. The staff of the veterinary and phytosanitary administration was reinforced and trained.

Some improvements have been reported in the area of financial control and audit functions. The Court of Auditors is still understaffed.

As regards institutional strengthening in the area of environment, 13 new Inspectors have been recruited by the Ministry of Environment and Physical Planning.

New institutions, necessary for the implementation of regional and structural policy, have been established by the new Law on balanced Regional Development adopted in July 1999. Therefore, this priority has been partially met.

- **Internal Market** : *including alignment in the areas of indirect taxation, intellectual and industrial property, adoption of VAT law and preparation for implementation in 1999, standardisation and certification (conformity assessment), technical regulations, and of company legislation and liberalisation of capital movements (in particular currency legislation), establishment of a state aid monitoring authority, a first aid inventory and the creation of a legal framework for state aid control, progress towards adoption of an anti trust law.*

Assessment : The Laws on Excise Duty and on VAT were adopted by Parliament and entered into force in July 1999.

In the field of intellectual property, the Law on the Protection on New Sorts of Plants was adopted in December 1998, and the UPOV convention was ratified.

The Law on Technical Requirements for Products and Conformity Assessment, the Law on Standardisation and the Law on Accreditation were adopted in July 1999. Amendments to the Company Law were adopted in January 1999.

As regards the liberalisation of capital movements, the Foreign Exchange Law and the Banking Law were adopted and the restrictive measures imposed by the Bank of Slovenia were lifted or reduced.

The Commission for State Aid Control, established in October 1998, has been operational since March 1999 and produced the first Survey on State aids at the end of June 1999. The new State Aids Law has not yet been adopted. The number of staff in the Competition Protection Office increased slightly. A new anti-trust law was adopted in June 1999. Therefore, this priority has been partially met.

- **Property Law:** *further clarification of the situation pertaining to property legislation with particular regard to the right to purchase property for EU citizens.*

Assessment : Paragraph 2 of Annex XIII of the Europe Agreement entered into force on 1 February 1999 (date of the entry into force of the Europe Agreement). In order to implement this provision, a new law to define reciprocity, and the Rules to establish permanent residence were adopted in February 1999. Other measures, including the training of personnel, were also taken. Therefore, this priority has been met.

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

Assessment : In the field of environment, some legislative progress has been made. In December 1998, the National Environmental Action Programme (NEAP) was finally adopted. The Nature Conservation Act was adopted in June 1999. Significant progress has been made in the following sectors: water protection, waste management, industrial pollution control and risk management, air quality protection, and chemicals and GMOs. Therefore, this priority has been partially met.

In conclusion, despite the delay underlined in the last year Regular Report, Slovenia has finally met many short term Accession Partnership priorities. However still some progress has to be achieved in the area of banking and insurance, civil service legislation, land registration, judiciary, financial control, phytosanitary and veterinary administration at external borders.

Medium-term priorities

Slovenia has also begun to make progress towards its *medium-term* priorities. Only the medium term priorities of the 1998 Accession Partnership that have been met are mentioned below:

- **Institutional and administrative capacity:** *as regards public procurement (in particular transparency), supervision of the insurance and security market, the Slovene Competition Office, completion of competition law, development and implementation of agricultural and regional policies, audio-visual policies, customs administration and enforcement of the customs code; improved operation of the judicial system; training for the judiciary in Community law and its application, reinforcement of justice and home affairs institutions (ensuring sufficient and properly trained personnel in particular police, border guards, ministries and courts), strengthening of the nuclear safety authority reform of customs and tax*

administrations to ensure readiness to apply the acquis, the reinforcement of food control administration.

Assessment : the Law on Auditing Public Procurement Procedures was adopted (vetoed by National Council), and the Securities Market Law was also passed. The customs and tax administrations are being re-organised following the adoption of the VAT and Excise Duty legislation. A Training Centre for the judiciary designed to enhance expertise in Community Law was established.

- **Internal market:** *including the alignment of legislation on public procurement, financial services, state aid (in particular alignment of monitoring rules and exclusive and special rights), upgrading of standardisation and conformity assessment structures, establishment of a market surveillance system and alignment of horizontal technical legislation on industrial products, increased efforts to liberalise the capital market and to facilitate foreign investments, further alignment of consumer protection, reinforcement of the competition office and the state aid monitoring authority, efficient enforcement of competition law, promotion of enterprise development, including SME's, alignment with the acquis in the fields of telecoms, consumer protection and the internal energy market.*

Assessment : the framework for reinforced standardisation and conformity assessment structures has been established with the adoption of horizontal legislation regulating the free movement of goods. The Law on Energy establishes the framework for acceding to the internal energy market.

- **Justice and Home Affairs:** *completion of alignment to international conventions, particularly in criminal field, fight against organised crime (in particular money laundering, drugs and trafficking in human beings) and corruption, implementation of migration policy and asylum procedures, and to align visa policy with that of the EU and to complete alignment to international conventions, notably in view of the Schengen acquis.*

Assessment : the Law on Asylum and the Law on Foreigners were adopted. These are designed to regulate migration policy. The Law on the Responsibility of Legal Entities for Criminal Acts was also adopted. This is designed to prevent organised crime, money laundering and corruption.

- **Nuclear safety:** *nuclear policy and investment plans to be adjusted in line with the results of the seismic risk assessment to be carried out in the surroundings of the Krsko NPP.*

Assessment : the seismic risk assessment being carried out in the surroundings of the Krsko nuclear power plant is proceeding and is scheduled to be completed in the early part of 2000.

- **Agriculture:** *establishment of a functioning land registry, strengthening of structural and rural development policy, including alignment with the agricultural acquis (including veterinary and phytosanitary matters, in particular external border controls), attention to environmental aspects of agriculture and biodiversity.*

Development of the capacity to implement and enforce the CAP, in particular the fundamental management mechanisms and administrative structures to monitor the agricultural markets and implement structural and rural development measures, adoption and implementation of the veterinary and phytosanitary requirements, upgrading of certain food processing establishments and testing and diagnostic facilities, restructuring of the agri-food sector.

Assessment : the plan for the reform of agricultural and rural development policy was adopted in October 1998. It is designed to lead to further progress in market liberalisation and the establishment of CAP mechanisms.

- **Transport:** *further efforts on alignment to acquis in particular on road transport (market access, safety rules and taxation) and rail, and to provide necessary investments for transport infrastructure, notably extension of trans-European networks.*

Assessment : the Law on Road Transport was amended. Investment in infrastructure has also continued.

- **Employment and social affairs:** *development of appropriate labour market structures and joint review of employment policies as preparation for participation in EU co-ordination; alignment of labour and occupational health and safety legislation and development of enforcement structures in particular early adoption of the framework directive on health and safety at work; enforcement of equal opportunities between women and men; further development of active, autonomous social dialogue; further development of social protection.*

Assessment : the Law on Employment and Insurance against Unemployment was amended to enable a more active employment policy, and the joint review of employment policies was launched with the Commission in May 1999. The Law on Health and Safety was adopted.

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

The first version of the National Programme for the Adoption of the *Acquis* (NPAA) for Slovenia was presented on 30 March 1998. Although it was a comprehensive and well-prepared document, it was restricted to the short-term (1998), and the quality was inconsistent between chapters.

The new, revised version was prepared in light of the comments made by Commission Services and covered priority tasks for the period between 1999 and 2002. The new NPAA was adopted by the Slovene Government on 27 May 1999 and presented to the Commission on 31 May 1999. It had previously been submitted to Parliament for discussion in April 1999. The Slovene National Assembly adopted conclusions giving instructions to the Government on the implementation of the NPAA, and any additions or amendments to it. The Government is sending a special report to the Parliament on its implementation.

The revised NPAA is a much clearer, consistent, and more comprehensive instrument. The structure follows the Copenhagen criteria, covering the political and economic criteria, and the timetable for adoption of the *acquis*. This central chapter describes the current situation in each area and defines the short-term and medium-term priorities, and lists the institutional and staffing requirements, as well as forecasts for budgetary funds and foreign aid funds. A special chapter defines the administrative capacity to implement the *acquis*. The final chapter evaluates the financial resources needed to implement the outlined measures. The majority of the *acquis* is now covered in terms of priorities, and areas that were not covered in the previous version are now included.

The document follows the structure of the Regular Report, in a clear and useful manner, and takes its analysis into consideration. The priorities set out in the document are consistent with the priorities of the Accession Partnership.

However, there are still gaps in the information provided. The main such gap is the lack of more precise information on short-term measures for implementation. Whilst the objectives are correctly identified, it is not always clear how and when they will be attained.

Whilst the revised NPAA extends the scope of its *acquis* coverage, in areas such as accounting and auditing, there is no *acquis*-related text, but only a section on administrative capacity. Similarly, in the field of free movement of goods, not all New Approach directives are covered, and there is no reference to the adoption and implementation of the principle of mutual recognition. In fact, gaps in *acquis* coverage can be found in almost every chapter, although in some areas (such as air transport, payment and settlement systems, etc.) the coverage is exhaustive.

As regards the timetable, more detail would be beneficial in most chapters (for instance in Economic and Monetary Union), particularly as regards the implementation and enforcement aspects. In some cases (such as in Free Movement of Capital, and Insurance), the timetable is clear enough, but should be speeded up in light of Slovenia's obligations under the Europe Agreement. Overall the deadlines appear to be realistic.

The new version of the NPAA also goes into greater detail as regards information on implementation structures and administrative capacity, although in some cases, it is still incomplete or insufficiently detailed. The link between the descriptive part of the document and the table on Institutions and Planned Recruitment by Fields could also be improved, establishing more clearly which institution is responsible for which domain.

Budgetary provisions are included, based on different sources, both public and private, and national and international. The fact that the NPAA does not follow a directive by directive approach makes it difficult to fully assess these financial estimates, but on the whole they are considered realistic and sufficiently detailed.

The extent of the co-ordination role of the NPAA is difficult to assess. On the one hand, the document fulfils such a role because it is a central, focal document in Slovenia's accession process: the exercise of creating such a document depends totally on proper communication and co-ordination structures, and its implementation will continue to require this. On the other hand, it is apparent that this role could be improved by making the NPAA even more comprehensive and detailed.

The chapter on regional policy and cohesion does not cover ISPA and SAPARD preparations. As regards references to the regional and local level, the main focus of the NPAA is on the national level. Whilst some references to the local level are included, these are relatively limited.

The NPAA will be reviewed at the end of each year, and will be submitted to the Parliament together with the proposal for the state budget so as to ensure consistency between the two documents, and to incorporate the recommendations arising from the Commission's Regular Report.

**HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES,
JUNE 1999**

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

CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
CRC (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

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

Annex

STATISTICAL DATA

STATISTICAL DATA

	1994	1995	1996	1997	1998
Basic data	in 1000				
Population (average)	1989	1988	1991	1987	1982
Total area	Km ²				
	20 270	20 270	20 270	20 270	20 270
National accounts	1000 Mio Tolar				
Gross domestic product at current prices	1853.0	2221.5	2555.4	2907.3	3243.5
	1000 Mio EURO				
Gross domestic product at current prices	12.1	14.3	14.9	16.1	17.4
	EURO				
Gross domestic product per capita ⁷ at current prices	6100	7200	7500	8100	8800
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	5.3	4.1	3.5	4.6	3.9
	in Purchasing Power Standards				
Gross domestic product per capita ¹ at current prices	10700	11300	12200	13000	13700
Structure of production	% of Gross Value Added ⁸				
- Agriculture	4.5	4.5	4.4	4.2	3.9
- Industry (excluding construction)	34.7	32.6	32.0	31.8	32.0
- Construction	4.7	5.0	5.6	5.6	5.7
- Services	56.1	57.9	58.0	58.4	58.3
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	76.9	78.3	77.5	76.9	76.3
- household and NPISH	56.7	58.1	57.3	56.5	55.7
- general government	20.2	20.2	20.2	20.5	20.6
- Gross fixed capital formation	20.1	21.4	22.6	23.5	24.2
- Stock variation ⁹	0.8	2.0	0.9	0.7	1.0
- Exports of goods and services	60.0	55.2	55.6	57.1	56.7
- Imports of goods and services	57.8	56.8	56.5	58.3	58.1
Inflation rate	% change over the previous year				
National consumer price	21.0	13.5	9.9	8.4	7.9
Balance of payments	Mio EURO				

⁷ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

⁸ Including FISIM.

⁹ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

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-Current account	504	-18	31	32	-3
-Trade balance	-283	-729	-695	-680	-691
<i>Exports of goods</i>	5742	6384	6592	7413	8113
<i>Imports of goods</i>	6026	7114	7286	8094	8804
-Services, net	568	482	554	520	458
-Income, net	143	161	122	115	130
-Net current transfers	77	70	49	77	100
<i>-of which government transfers</i>	-92	-63	-62	-58	-75

	1994	1995	1996	1997	1998
Public finance	% of Gross Domestic Product				
General government deficit/surplus ¹⁰	-0.3	-0.3	0.1	-1.5	:
Financial indicators	% of Gross Domestic Product				
Gross foreign debt of the whole economy	11.0	11.0	19.1	12.9	15.2
Monetary aggregates	1000 Mio EURO				
- M1	1.1	1.2	1.3	1.4	1.8
- M2	3.1	3.7	4.2	5.4	6.7
- Total credit	4.4	5.7	6.0	6.4	6.7
Average short-term interest rates	% per annum				
- Lending rate	39.4	24.8	23.7	21.3	17.3
- Deposit rate	28.1	15.4	15.1	13.2	10.5
EURO exchange rates	(1EURO=...National currency)				
- Average of period	152.8	154.9	171.8	181.0	186.0
- End of period	156.5	165.6	177.3	186.8	188.8
	1995=100				
- Effective exchange rate index	100.4	100.1	90.2	85.4	83.2
Reserve assets	Mio EURO				
- Reserve assets (including gold)	1219	1386	1834	3002	3107
- Reserve assets (excluding gold)	1219	1385	1833	3002	3106
External trade	Mio EURO				
Imports	6140	7257	7420	8259	9007
Exports	5740	6358	6545	7380	8072
Balance	-400	-899	-876	-880	-936
	corresponding period of the previous year = 100				
Terms of trade	106.0	103.5	101.9	99.8	102.4
	as % of total				
Imports with EU-15 (EU-12 in 1994)	57.1	68.8	67.5	67.4	69.4
Exports with EU-15 (EU-12 in 1994)	59.2	67	64.6	63.6	65.5
Demography	per 1000 of population				

¹⁰ Central government only.

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Natural growth rate	0.1	0.0	0.1	-0.4	-0.6
Net migration rate	0.0	0.4	-1.7	-0.7	-2.7
	per 1000 live-births				
Infant mortality rate	6.5	5.5	4.7	5.2	5.2 ¹¹
	at birth				
Life expectancy : Males	69.9	70.3	70.8	71.0	71.1
Females	77.8	77.8	78.3	78.6	78.7

¹¹ National source.

	1994	1995	1996	1997	1998
Labour market (ILO methodology)	in % of labour force				
Economic activity rate	57.6	58.7	57.6	59.5	59.4
Unemployment rate, total	9.0	7.4	7.3	7.4	7.9
Unemployment rate of persons < 25 years	22.2	18.8	18.8	17.6	18.6
Unemployment rate of persons >= 25 years	7.1	5.6	5.6	5.6	6.1
Average employment by NACE branches (LFS)¹²	in % of total				
- Agriculture and forestry	11.5	10.4	10.1	12.7	11.5
- Industry (excluding construction)	36.5	37.9	36.7	34.2	33.7
- Construction	5.7	5.1	5.4	5.8	5.6
- Services	46.2	46.5	47.8	47.2	49.3
Infrastructure	Km per 1000 Km2				
Railway network	59	59	59	59	59
	Km				
Length of motorways	206	218	221	251	249
Industry and agriculture	previous year = 100				
Industrial production volume indices	106.4	102.0	101.0	101.0	103.7
Gross agricultural production volume indices	120.0	100.1	100.7	99.4	:
Standard of living	per 1000 inhabitants				
Number of cars	330	352	365	385	402
Telephone subscribers	290	309	333	357	389
Number of Internet connections	:	:	:	:	9.85 ¹³

: not available

¹² For 1994-1996 data estimation.¹³ Source: United Nations.

Methodological Notes

National account

Gross domestic product per capita in PPS. Revised data use the PPP figures from the International Comparison Project.

Inflation rate

Consumer price . The EU Member States have designed a new consumer price index in order to meet the obligations in the Treaty of the EU, as a part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP).

A similar exercise has been started with Candidate Countries. In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. However, it will still take some time before genuine HICPs will be available in Candidate Countries, and it must be emphasised that the figures reported in the table are based on national CPIs, which are demonstratively non-comparable.

Finance

Sources

Where possible, Eurostat questionnaire on monetary and financial statistics has been used as the source. Candidate Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission is used as the source for exchange rates against the EURO, where available.

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source for 1994-6. The data for 1997-8 are the result of closer cooperation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into EURO at end-year exchange rates, whereas GDP is converted into EURO using annual average exchange rates.

Concerning general government deficit / surplus, Candidate Countries are presently unable to provide reliable data on a national accounts basis. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

Method

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

General government deficit / surplus is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the consolidated central government

deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis.

Monetary aggregates are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data. Interest rates Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates Where available, the EURO exchange rates are those officially notified. The effective exchange rate index is weighted by major trading partners, with a base year of 1995.

External trade

Imports and exports (current prices) . The recording is based upon the special trade system, according to which; external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licenses, know-how and patents. The statistical value of the goods is based on the customs value, i.e. on the transaction value of goods. The invoice value is recalculated to the value at the Slovenian border by adding or subtracting a part of or all the costs of transport, loading, unloading and insurance, depending on the terms of delivery set down in the contract. The statistical value of exported goods is thus FOB-type valuation and the statistical value of imported goods is CIF-type valuation. Thus defined statistical values of exported and imported goods are recalculated to the current exchange rates valid on the day of submission of the customs declaration, or, if this date is not used for implementing customs regulations, on the date which is specially stated for this purpose. The middle daily exchange rates of the Bank of Slovenia are used for this recalculation.

Due to coming into force of the new customs legislation at the beginning of 1996 (i.e. new Customs Law, Single Administrative Document and Combined Nomenclature) the methodology and electronic data processing of external trade statistics had to be adjusted. Nevertheless, comparability of data before and after 1996 is assured at higher levels of aggregation.

Terms of trade. The terms of trade are the ratio of the price index for exports to the price index for imports. The indices are calculated by the "unit value" method (Fisher index) from US dollar values of imports and exports of goods. Transactions related to processing are not included.

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

Demography

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

Labour Force

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

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

The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of co-operatives or contributing family workers.

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

- (i) have no work,
- (ii) are actively seeking a job and
- (iii) are ready to take up a job within a fortnight.

LFS excludes persons in compulsory military service and persons living in non-private households (so-called institutional population). Workers on lay-off and persons on maternity leave are classified among persons in employment. Till the 1st quarter of 1997 LFS was an annual survey, from the 2nd quarter of 1997 it is a quarterly survey.

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

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

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

Infrastructure

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

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

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

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

Industry and agriculture

Industrial production volume indices. Index of industrial production covers enterprises with 10 or more employees, except those engaged in the following activities: publishing, gas, steam and water supply.

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

Standard of living

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

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

Telephone subscribers. Mobile phone subscribers are not included.

Sources

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

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