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A. Introduction

a) Preface

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

The European Council in Luxembourg decided that

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

On this basis, the Commission presented a first series of regular reports in October 1998, with a view to the Vienna European Council; a second series was adopted in October 1999, with a view to the Helsinki European Council. The Helsinki European Council noted that the next regular reports would be presented in good time before the European council in December 2000.

The structure followed by this regular report on Latvia is largely similar to that of the Commission’s 1997 Opinion and of the subsequent regular reports; however, it differs from that used in previous years on three minor points. Firstly, the part of the present report assessing Latvia’s ability to assume the obligations of membership (*Part B.3.1.*) has been structured to follow the list of twenty-nine negotiating chapters covering the *acquis*. Secondly, this part has been broadened to cover also Latvia’s administrative capacity to apply the *acquis* under each of the negotiating chapters (previously discussed in a separate section of the report). Thirdly, the report includes, for the first time, a section assessing the progress made by Latvia in translating the *acquis* into its official language.

In line with previous regular reports, the present report:

- describes the relations between Latvia and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Latvia’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);

- addresses the question of Latvia's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as requested by the Madrid and Feira European Councils in December 1995 and June 2000 respectively. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter.

This report takes into consideration progress since the 1999 regular report. It covers the period until 30 September 2000. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 1999 regular report have been carried out, and examines new initiatives. Furthermore, complementing the assessment of new developments since the last regular report, this report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Latvia in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Latvia's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last regular report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, is based on a forward-looking evaluation of Latvia's economic performance.

The report contains also a separate section examining the extent to which Latvia has addressed the short-term Accession Partnership priorities, and has started to address the medium-term priorities set out in this framework.

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

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last regular report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations, have served as additional sources. Council deliberations and European Parliament reports and

resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

b) Relations between the European Union and Latvia

Recent developments under the Association Agreement (including bilateral trade)

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

The third meetings of the Association Council and the Association Committee were held in February and June 2000 respectively. The system of sub-committees continues to function as a forum for technical discussion.

Since the issuing of the Commission's last regular report, the Joint Parliamentary Committee comprising representatives of the Latvian and European Parliaments met in January and September 2000.

Latvia's trade with the EC has continued to increase. In absolute terms, trade between Latvia and the EC decreased slightly, and the rate of growth declined in 1999. Latvian exports to the EC accounted for 62.5% of total exports during 1999. In the first quarter of 2000, it accounted for 68%. Imports from the EC amounted to 54.5% in 1999 and 53.5% in the first quarter of 2000. Latvia's main export products to the EC were wood and textiles, while the most important import products from the EC to Latvia were machinery and agricultural goods.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries with a view to new reciprocal concessions for agricultural products. The negotiations, which form a part of the overall accession process, have been carried out on a reciprocal basis and with the aim of leading to a fair equilibrium between the interests of the European Community, the EU member states and those of Latvia. The negotiations have been based on the principle of neutrality with respect to the functioning of the Common Agricultural Policy.

The negotiations with Latvia were concluded between negotiators at technical level in May 2000. As a consequence of the new agreement, approximately 75% of the bilateral trade in agricultural products will benefit from preferences. The new regime entered into force in July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement. For processed agricultural goods, an agreement between the negotiating parties at technical level was reached in July 2000. In July 2000, the Council mandated the Commission to open negotiations with the associated countries with a view to new reciprocal concessions in the field of fish and fishery products.

In mid-1999, Latvia introduced a temporary safeguard measure on imports of pig-meat on an *erga omnes* basis, which was transformed into a permanent measure for a period of

¹ For the European Parliament the *rapporteur* is E. Schroedter

two years later during the year. The Community stated that by imposing and applying the safeguard measure, the Latvian authorities were in breach of several articles of the Europe Agreement. After several rounds of discussions between the Community and Latvia, the Latvian authorities decided to abolish the safeguard measure as of June 2000.

Current discussions in the institutional framework of the Europe Agreement focus particularly on the implementation of the Accession Partnership (*see below*) and seek to achieve progress in areas like the internal market, agriculture and justice and home affairs.

At the end of 1999, the transitional period (as foreseen in Article 3 of the Europe Agreement) expired. Latvia undertook to achieve compliance with the obligations stemming from this, and notably eliminated restrictions on capital movements in the sectors of radio and television, lotteries and gambling, and logging. As concerns public procurement, previously existing discriminatory restrictions in Latvian legislation were eliminated automatically by the end of the transitional period.

At present, the direct investment regime applicable for security services and for the acquisition of land are incompatible with the Europe Agreement.

In the area of conformity assessment and acceptance of industrial products, a Framework Agreement for a Protocol on European Conformity Assessment (PECA) was initialled in July 2000, and negotiations on individual sectoral annexes continued.

During the last year, Latvia undertook to meet the commitments made in the Joint Assessment on medium term economic policy priorities, which had been concluded between the Commission and Latvia in February 1999.

Accession Partnership / National Programme for the Adoption of the Acquis

A revised Accession Partnership was adopted in December 1999. Its implementation is reviewed in chapter D of this report.

In June 2000, Latvia 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 of the Accession Partnership (*see chapter D below*).

Community aid

Since January 2000, there are three **pre-accession instruments** financed by the European Community to assist the applicant countries of central Europe in their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. These programmes concentrate their support on the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

In the years 2000-2002 total financial assistance to Latvia will amount annually to € 30 million from Phare, € 22.2 million from SAPARD, and between € 36.4 and 57.2 million from ISPA.

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

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

Around 30% of the Phare allocation is used for “institution building”, while the remaining 70% is used for financing investments.

During the period 1992 – 1999, the Phare programme allocated € 248.2 million to Latvia. The **2000 Phare Programme** for Latvia consists of a national allocation of € 24.75 million concentrated on the following priorities:

- priority 1 : Political Criteria
Promotion of integration of society in Latvia (€ 1.1 million)
- priority 2 : Internal Market
Latvian national quality assurance project (€ 2.0 million)
- priority 3 : Agriculture and Fisheries
Strengthening Latvia’s fishery administration to meet the requirements of the Common Fisheries Policy (€ 2.0 million)
- priority 4 : Justice and Home Affairs
Development of integrated Latvian border management and infrastructure (€ 3.16 million)
Development and implementation of Latvian drug control and drug abuse prevention masterplan in accordance with EU requirements (€ 1 million)
- priority 5 : Reinforcement of Institutional and Administrative Capacity
Public expenditure management project (€ 3 million)
Upgrade the Latvian statistical system in accordance with EC requirements (€ 2 million)
- priority 6 : Economic and Social Cohesion
Development of capacity for regional development (€ 1.5 million)
Economic and social cohesion measures in Latgale (€ 6.21 million)
Economic and social cohesion measures in Zemgale (€ 2.79 million)

An additional € 2 million has been allocated for the Baltic Sea Region Cross Border Co-operation Programme. Latvia also participates in and benefits from Phare funded multi-

country and horizontal programmes, such as TAIEX, the Small and Medium-sized Enterprises Facility and the Supplementary Investment Facility.

Furthermore, Latvia participates in the following Community programmes : Leonardo, Socrates, Youth, SAVE II, 5th EC Framework Programme on Research and Development, and 5th Euratom Framework Programme. The procedure for Latvia's participation in the Third Multi-Annual Programme for SMEs has been finalised. Latvia has declared its intention to participate in the Culture 2000 programme. It has been selected as one of the hosts of the European Cultural Month in 2001. Following the opening of negotiations regarding Latvia's participation in the European Environment Agency, an agreement has been reached. Following ratification and entry into force of this agreement, scheduled for early 2001, Latvia will become a member of the Agency.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as environment, transport and justice and home affairs. Phare has furthermore provided support to strengthen capacities of institutions such as the European Affairs and Legal Committee in the Latvian Parliament (*Saeima*), the Ministry of Finance and to prepare Latvia for future participation in structural funds.

In Latvia, Phare has played a particularly important role in areas including:

- Providing technical assistance to the tax sector (€ 1.8 million). The project has contributed significantly toward ensuring that Latvia meets a number of essential requirements in the area of taxation (VAT, excise taxes and income taxes). As one of the most significant results, the application of the tax law and the harmonisation of VAT should be mentioned. As regards the excise tax, progress has been made in the harmonisation of the three existing laws (on tobacco, alcoholic beverages and mineral oil products) with the EC Directives. New audit techniques have been introduced to emphasize the management accounting approach and strategic planning.
- The field of legal approximation. A large scale (approximation of Latvian legislation) project (€ 4 million) came successfully to an end in December 1999. The project delivered substantial assistance to the line ministries and the European Integration Bureau (EIB). It assisted in drafting specific laws, assessing Latvia's headway in law approximation in order to help develop the database of the European Integration Bureau, training the respective staff within each line ministry, as well as delivering support to the Legal Department of Parliament. In total, the scope of the project covered 929 EU-related legal acts in all sectors.
- In the area of social integration, Phare has been the most important supporter of the Latvian Language Training Programme (a total of € 2.5 million since 1996), a multi-donor programme so far administered by the United Nations Development Programme (it will be fully managed by the Latvian authorities in the future). The programme has focused on enhancing Latvian language training in minority schools, providing language training opportunities for targeted groups of adults and promoting social integration at community level. During 1999, about 15 000 students and adults benefitted from language training.

A reform of the **Phare management system** took place in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare's activities. The recent Phare Review Communication in 2000 continues to refine these basic management structures

so as to further bridge towards accession and the structural funds. First, management can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare's programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 will continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis of management on raising the impact of Phare's projects in institution building, investment in compliance with the *acquis*, and economic and social cohesion. Significant further efforts by the Latvian authorities in terms of staff and resources will be necessary in order to be able to adequately programme the pre-accession instruments, especially Phare.

As regards **SAPARD**, the Latvian Rural Development Plan got a favourable opinion in the STAR Committee (EC Management Committee on agricultural structures and rural development) in September 2000. The plan has been approved by the Commission in October 2000.

The plan is based on three priorities, namely the development of sustainable agriculture (54% of EC funds), integrated rural development (36% of EC funds), and improvement of the environment (4% of EC funds). The average annual expenditure will amount to € 54.8 million during the period 2000-2006, of which € 22.2 million (at 2000 prices) represent the Community contribution.

The Rural Support Service has been established and preparations for its accreditation as the SAPARD Agency are underway.

As concerns the **ISPA** programme, the Latvian government has elaborated strategy papers for transport and environment. The Commission and the Latvian authorities have together established a shortlist of priority projects for ISPA funding in the transport and environment sectors over the period 2000-2006. For transport, these are likely to cover four sectors (roads, railways, ports and airports) and will mainly involve the upgrading of Road Corridor I (Via Baltica) and the modernisation of the East-West rail corridor. In the case of the environment, the projects can cover the four sectors of drinking water, wastewater, solid and hazardous waste and air pollution and will mainly relate to the development of water services in the big cities and solid waste management in several regions of the country. The Commission adopted the first Latvian project (upgrading of the Gauja-Lilaste section on the Via Baltica with an ISPA contribution of € 4.7 million) and is likely to adopt three other transport projects (€ 38.4 million) and three environment projects (€ 37.7 million) before the end of the year 2000.

Implementation of the ISPA projects will follow the same institutional framework as for the Phare programme, with the National Fund at the Ministry of Finance being in charge of overall financial management and a number of Implementing Agencies responsible for the technical implementation. For the programme and financial management of SAPARD, a different system will apply which reflects the EAGGF (European Agricultural Guidance and Guarantee Fund) rules and is based on a fully decentralised approach through an accredited paying and implementing agency.

Twinning

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998,

the European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States' expertise is now being made available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions. Thanks to the strong support and response from EU Member States 107 twinning partnerships, funded by Phare 98 and involving all candidate countries and almost all Member States are operational. Under Phare 99 a further 107 projects are being implemented and the programming exercise for Phare 2000 includes a further 129 twinning projects. It is estimated that around 250 twinning projects will be operational throughout the candidate countries at any one time.

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

For Latvia, there are currently eight projects being implemented by twinning. One project is in the field of veterinary and phytosanitary control with the participation of Germany and France. Sweden and Denmark are working with Latvian partners on two projects to strengthen the country's capacity to enforce legislation on water and on hazardous waste. Germany, together with the UK, is helping the Latvian Ministry of Finance develop its capacity to assume the obligations of the Internal Market. In the area of justice and home affairs, the reform of the Latvian court system is supported, and the Frontier Guard of Finland is co-operating with its Latvian counterparts to develop training in border control procedures. Finland is also leading two projects to prepare for the administration of structural funds.

Further projects for twinning financed under the 1999 programme are being prepared and are scheduled to start soon. They include support to enhance the administrative capacity in the State Revenue Service with partners from Sweden (together with Belgium), capacity building for food control bodies at national and regional level with a counterpart from Germany, and capacity building to improve the law approximation process in various line ministries with a twinning team from Sweden. Under the Consensus III programme a twinning project is planned to enhance institution building for occupational health and safety with a Spanish counterpart.

Under the 2000 Phare programme, six projects include significant twinning components (with a total Phare contribution of € 6.4 million). The projects concern the following fields :

- administrative and institutional capacity in the fisheries administration
- development of integrated border management
- development of a drug control and drug abuse masterplan
- public expenditure management including public administration
- capacity building in the Latvian Statistical Office
- development of administrative and institutional capacity for regional development.

The European Integration Bureau (EIB), which has taken over the responsibility for twinning (National Contact Point) since last year, has an essential role to play in the

development and co-ordination of twinning activities. It will be important that the EIB take a more active co-ordinating role vis-à-vis the ministries and other bodies benefitting from twinning in order to make the best use of the twinning instrument as an important tool for preparing Latvia's administration for accession.

Negotiations / screening

The analytical examination of the *acquis* (screening) has been concluded for Latvia with meetings for agriculture and Schengen held in late 1999 and early 2000. During the first half of 2000, the results of the screening were updated for twenty-three chapters.

Negotiations were officially opened at the bilateral intergovernmental conference held in February 2000. In March 2000, substantial negotiations started on eight chapters of the *acquis*: competition, statistics, small and medium-sized enterprises, science and research, education and training, culture and audiovisual policy, external relations and common foreign and security policy. The accession conference held in June 2000 decided to provisionally close all the above chapters, with the exception of competition policy, culture and audiovisual policy, and external relations.

As recommended by the Commission, the Presidency's proposal is to open negotiations for eight further chapters (free movement of services, free movement of capital, company law, fisheries, industrial policy, transport, economic and monetary union, consumers and health protection) during the second half of 2000.

B. Criteria for membership

1. Political criteria

Introduction

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

In its 1999 regular report on Latvia’s progress towards accession, the Commission concluded that:

"Latvia fulfils the Copenhagen political criteria. Although significant progress has been achieved in the integration of non-citizens it will be necessary to ensure that the final text of the Language law is compatible with international standards and the Europe Agreement. Areas which still need attention are the strengthening of the judiciary and increasing its efficiency, the fight against corruption and the promotion of Latvian language learning among non-citizens."

The section below aims to provide an assessment of developments in Latvia since the 1999 regular report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Latvia’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Latvia’s ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part B.3.1. of this report.

Recent developments

Last year, a new government came into office in Latvia. The Prime Minister, who had taken up his post in July 1999 following the resignation of his predecessor, resigned in April 2000. Supported by the former three-party coalition and one additional party, the new Prime Minister was appointed, and a new government was approved by Parliament in May 2000.

No major shift in government policy has taken place over the last year, and EU and NATO membership are still among the government’s key objectives.

1.1. Democracy and the rule of law

As mentioned in the last regular reports, Latvia has achieved stability of institutions guaranteeing democracy and the rule of law. This section therefore describes the most significant developments of the past year.

The parliament

The Parliament continues to operate smoothly. It, and in particular its European Affairs Committee, has undertaken to further strengthen its role in matters related to European Integration, including in the formulation of Latvia's positions for EU accession negotiations, and a change in the Parliament's rules of procedure to codify these changes is foreseen.

The Parliament adopted its own "Strategy for the Integration into the European Union" in February 2000, which will be subject to regular reviews.

The executive

One of the greatest challenges Latvia faces in preparing for EU membership is to upgrade the functioning of its administration in order to be in a position to efficiently and effectively manage and implement the *acquis* upon accession. The 1999 regular report concluded that while Latvia had continued to demonstrate good progress in aligning its legislation with the *acquis* and in setting up the structures required to implement it in most areas, the delays in implementing general public administration reform had weakened its capacity in this respect.

The 1999 Accession Partnership with Latvia included "accelerate reform of the public administration including strengthening of the relevant administrative institutions " as a short-term priority. Since the last regular report, some progress has been made at conceptual level, as well as in adopting framework legislation, improving the institutional set-up and implementing practical steps.

In March 2000, a senior external adviser supported by EC Phare reported to the Prime Minister that the current situation was characterised by three main weaknesses, namely the lack of political consensus regarding the reform process, a policy vacuum at the centre of government, and the absence of a unified public service. Due to the lack of an adequate status, there has been a notable lack of qualified and experienced personnel, whilst at the same time there has been constant pressure over the past years to downsize the civil service and outsource core activities. The lack of career prospects and the low salaries in the public sector have made it difficult to retain qualified staff.

The new government has demonstrated its commitment to continuing the reform process by according the issue a prominent place in its declaration of May 2000 and by maintaining the post of a Special Minister in charge of Public Administration and Local Government Reform in the Cabinet.

To address structural deficiencies, several new legislative acts have been prepared over the last few years. In September 2000, a new Civil Service Law was adopted. This had been a short-term priority in the 1999 Accession Partnership. In January 2000, a conceptual document was adopted, foreseeing the introduction of a unified remuneration system by the end of the year.

Further key legislation has, however, still not been adopted. At the time of completion of this report, a Framework Law on the Institutional Structure of the Public Administration, and a Law on State Agencies were still awaiting adoption by Parliament. The latter aims to address the problem posed by the exponential growth in the number of semi-

autonomous agencies (approx. 170) whose legal statute and systems of staff remuneration are not transparent and which are not subject to proper financial control.

To rationalise and improve the institutional set-up, several steps were taken. Firstly, the Bureau of Public Administration Reform and the Secretariat of the Special Minister for Public Administration and Local Government Reform were merged in January 2000 to create a single unit, the Secretariat of Public Administration Reform with the task of steering the reform process. Secondly, in accordance with the March 2000 recommendations of the senior external adviser, a policy planning and review unit was recently set up at the State Chancellery (with a staff of 6) to improve the co-ordination of policy objectives and priorities at the central level. Thirdly, the 1999 Regular Report had referred to the need to improve the internal audit system within ministries. Since then, the setting up of internal audit units in all line ministries has been completed (*see chapter 28 – Financial control*).

Several practical measures have also been undertaken to improve the situation of the staff in the administration. Under the 1994 Civil Service Law, civil servants have remained as 'candidates' subject to special state exams being held. While there had been several delays in the start up, by mid-September 2000, 807 candidates had received civil servant status (out of total of 6,793 in the central administration), as compared to 84 in June 1998. In November 1999, the Civil Service Administration drew up a Strategy for the Development of Personnel Management, foreseeing the development of appraisal procedures.

In September 1999, the European Integration Council decided on a training strategy on EU issues for staff in the public administration, the implementation of which has started in the form of compulsory courses organised by the Latvian School for Public Administration. The School manages and co-ordinates the training process for state civil servants. By May 2000, 2,320 persons had already undergone such training.

In accordance with the short-term priorities of the 1999 Accession Partnership, it will be important during the coming period that the momentum of public administration reform be maintained in order to carry forward the necessary institutional changes. Once the remaining pending legislation to create the legal framework for the reform has been adopted, it will have to be enforced rigorously.

No major changes in the structures related to European Integration have taken place during the last year. The European Integration Bureau, which is the central administrative institution for the co-ordination of the internal integration process, saw its budgetary allocation for information activities on the EU cut significantly this year.

The judicial system

Progress in improving the functioning of the judicial system in Latvia has been forthcoming, albeit rather slowly. During the last year, some efforts have been made, including some improvements to the legal and institutional framework and the promotion of training of judges.

Concerning the legal and institutional framework, several developments can be reported. In January 2000, a division for legal methodology was created within the Ministry of Justice in order to improve the quality of legal drafting, which is one of the main functions of the Ministry. The Law on the Prosecutor's Office was amended in June

2000, establishing more stringent requirements for candidates to the post of the Prosecutor General and introducing two new grounds for the dismissal of the Prosecutor General (deliberate non-fulfilment of duties and violation of the code of ethics for prosecutors). Within the Prosecutor General's Office, a new division for international relations and a specific unit for customs were recently established.

However, legislation to codify the transformation of court bailiffs into an independent legal profession has still not been adopted. The co-ordination between court bailiffs and the court system needs to be improved in order to ensure the proper enforcement of court decisions, which currently continues to be a serious problem. The high number of complaints from individuals received by the Department of Bailiffs continues to put a heavy burden on its staff.

The status of judges had been enhanced with the adoption of relevant legislation as well as an increase in their salaries at the end of 1998. The overall level of salaries remains low, however. At present, 24 out of 325 judge posts still remain vacant (compared to 26 in July 1999).

Some efforts have been made to improve the professional qualifications of judges. In 1999, the Judicial Training Centre (NGO) held courses for all judges, and it is in principle foreseen that all judges should also follow courses in EC law in accordance with a 3-year plan (2000-2003) drawn up by the Centre. Training courses were also held for legal professions other than judges, such as bailiffs, court personnel and others. While increased funds for the training of judges were made available in 2000, the Training Centre nevertheless continues to suffer from lack of financial resources and has to rely to some degree on external assistance. Overall, judges are generally not yet well qualified, and the training of judges, in particular also in EC law, should be continued and expanded during the years to come.

Considerable delays in court proceedings continue to exist despite the adoption of a new 'Law on Civil Procedure' last year, which provided the legal basis for shortening the duration of proceedings. In mid-2000, the total number of pending criminal court cases amounted to 5,516 and of pending civil cases to 24,940, compared to 5,837 criminal and 26,232 civil cases in mid-1999. A new Law on criminal procedures is still in the drafting stage. Concerning prison sentences, sentencing to community service rather than detention is still uncommon. A probation service has not yet been established.

As regards structural issues related to the court system, the Ministry of Justice drew up guidelines for the maintenance of court buildings in March 2000 with the aim of preventing corruption in the judicial system (which continues to be a serious problem, *see below section on 'Anti-corruption measures'*) improving public service and ensuring the protection of witnesses. It will also be important that the security of court buildings be enhanced.

The publication of court decisions has started, as has the development of a centralised index. This problem should be partially resolved with progress in the computerisation of the courts, which has so far covered ten courts. Full use of these new facilities should be made.

Overall, while some of the deficiencies of the judicial system have started to be addressed, sustained further efforts will be necessary. The legal framework needs to be completed (including the adoption of laws on court bailiffs and on criminal procedures),

the training of judges needs to be expanded and intensified, and the infrastructure of court buildings needs to be further improved.

Anti-corruption measures

Corruption continues to pose a serious obstacle to the proper and efficient functioning of the public administration in Latvia. Since the last regular report, some positive steps can nevertheless be noted both at the conceptual level and in creating the necessary structures to implement anti-corruption measures.

In April 2000, the government adopted an anti-corruption programme, which updated and revised the previous programme from 1998. The new government is committed to further improving the legal framework and its implementation, as well as the performance of the police and the State Revenue Service in the fight against corruption in the administration. It adopted a concept paper on the fight against corruption in August 2000, foreseeing legal and institutional changes.

An action plan on the prevention of corruption is being implemented in the State Revenue Service. As concerns the police, following changes in the relevant legislation, state police officers can no longer levy on-the-spot fines when discovering an offence.

Several relevant institutional changes have also taken place. They include the creation in December 1999 of the Secretariat of the Corruption-Prevention Council (the Council itself has existed since 1997, is charged with overall co-ordination, and is chaired by the Minister of Justice), in order to ensure the implementation of anti-corruption measures, and the establishment, in early 2000, of a special unit within the security police to address the problem of corruption in law-enforcement bodies.

In 1999, 43 cases of passive bribery and 15 cases of active bribery were detected in state institutions. In these cases, 23 sentences for passive bribery (compared to 12 cases in 1998) and 9 sentences for active bribery (compared to 5 cases in 1998) were handed down. During the first half of 2000, 1 person was sentenced for passive bribery (out of 25 cases registered since January 2000) and 4 for active bribery (out of 6 cases registered). There are no prosecutors specialising in corruption cases.

Latvia ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime in 1998. It signed the Council of Europe Criminal Law Convention on Corruption in 1999, and the government prepared the necessary legislation for the ratification, including amendments to the Criminal Code, in August and September 2000 for adoption by Parliament. Latvia joined the Group of States against Corruption (GRECO) in June 2000 but has not yet signed the Council of Europe Civil Law Convention on Corruption, the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, nor the UN anti-corruption programme for Drug Control and Crime Prevention.

Further sustained efforts will be needed to complete the legal framework and to ensure effectiveness in the fight against corruption in order to achieve concrete results and to reduce the overall level of corruption in Latvia. The effective functioning of law enforcement institutions needs to be ensured. Various institutions have investigative capacity, including the state police, the financial police and the economic police, and co-ordination amongst all bodies involved needs to be improved to avoid overlaps in functions. Training for affected staff in the public institutions, such as auditors, needs to

be organised in order to sensitise them to the problem. Activities aimed at fostering awareness and changing perceptions amongst the public should equally be carried out.

1.2. Human rights and the protection of minorities

As mentioned in the last regular reports, Latvia continues to respect human rights and freedoms. The following section focuses on subsequent major developments.

Latvia has acceded to most of the major international human rights instruments and abolished the death penalty in 1999 with the ratification of the 6th Protocol to the European Convention for the Protection of Human Rights and Fundamental Freedoms, and the relevant Latvian legislation (the Criminal Code) was amended in May 2000. The Council of Europe Framework Convention for the Protection of National Minorities and the European Social Charter have still not been ratified.

Civil and political rights

In February 2000, the Parliament decided to abolish 16 March as official commemoration day, thereby eliminating the controversies surrounding this date in previous years and dissociating the authorities from all commemorative events held by war veterans on the day.

There are indications that prostitution and the *trafficking* in women and children for prostitution abroad are increasing. A National Programme for Preventing Sexual Violence Against Children 2000-2004 was adopted in January 2000; its implementation will be supervised by the National Centre for the Protection of the Rights of the Child.

The process of aligning refugee and *asylum* legislation on international standards as well as the Community *acquis* has continued but needs to be carried on. The new Refugee Reception Centre at Mucenieki, which was officially opened at the beginning of 1999, housed a total of six asylum seekers and five refugees at the end of 1999 ; its total capacity is 250 persons. A total of seven persons have been granted official refugee status in Latvia, three of them during 1999 (total number of applications in 1999 : 22 persons) and one in early 2000.

Efforts to improve *prison conditions* continued in the last year, including renovations of buildings and training of guards, and measures to address the problem of tuberculosis in prisons have shown first results. In January 2000, the administration of prisons was transferred from the Ministry of Interior to the Ministry of Justice. Additional resources have been allocated in the national budget for the construction of a new prison in Olaine. Nevertheless, the situation in some prisons remains substandard, especially as concerns health and sanitary conditions and overcrowding. This equally applies to the two existing centres for illegal immigrants. There is a continued lack of personnel and equipment, and some prison facilities are still awaiting renovation. While there was a slight decrease in the overall number of prisoners in 1999, the proportion of pre-trial detainees increased, and pre-trial detention periods continue to be long. The situation is particularly serious for juveniles, who are sometimes not accommodated separately, and where the length of pre-trial detentions is not always in conformity with international standards. The implementation of social rehabilitation programmes has continued, but needs to be introduced on a wider basis (in particular for juvenile delinquents). Some structural problems still need to be resolved , including the fact that some prisons are guarded by

conscripts from a special regiment of the Ministry of Interior rather than by professional guards.

Economic, social and cultural rights

Concerning *equal opportunities*, it appears that women often face discrimination in the workplace in terms of hiring and pay. In February 2000, a first court case concerning equal treatment and in particular equal pay was examined, and the requests of the claimant (a female employee) were satisfied. However, the employer subsequently successfully appealed against the decision, and the case was taken to the Supreme Court.

Several initiatives related to the protection of *children's rights* were undertaken in 1999. Latvia ratified the Council of Europe Convention on Adoption of Children in May 2000 and signed the European Convention on the Legal Status of Children Born out of Wedlock in September 1999 and the European Convention on Recognition of Decisions and Enforcement of Decisions Concerning Custody of Children and Restoration of Custody of Children in October 1999.

Concerning the treatment of *disabled* persons, legislation to protect the rights of the mentally ill has yet to be adopted. While the government has undertaken to address the problem, the substandard conditions in some of the facilities for the mentally ill have continued to give raise to some concerns. A Strategy on Psychiatric Assistance 2000-2003 was adopted in July 2000.

As to *unemployment* benefits, the 1999 Regular Report had reported that a very high number of employees in Latvia would not be eligible for unemployment benefits because no social tax had been paid by their employers. To address this problem, amendments to existing legislation on social insurance are under preparation.

Minority rights and the protection of minorities

Latvia acceded to the 1954 UN Convention Relating to the Status of Stateless Persons in September 1999 but has introduced reservations concerning the application of the Convention's provisions on social security and identity papers. The Latvian Parliament decided in May 2000 not to ratify the Council of Europe Framework Convention for the Protection of National Minorities for the moment due to inconsistencies between Latvian legislation and certain provisions of the Convention.

The naturalisation procedure

Of Latvia's total population of about 2.43 million, around 570,000 persons were non-citizens residents in mid-1999. While Latvian citizenship had previously been rather difficult to obtain, amendments to the Law on Citizenship entered into force in November 1998 following a referendum. The previous "age windows" system was consequently abolished and stateless children born in Latvia after 21 August 1991 became eligible for citizenship. Practically all non-citizens residents of Latvia are now entitled to apply for citizenship.

During the second year following the liberalisation of the Citizenship Law, rapid increases in the numbers of requests for naturalisation were observed. However, a decrease in the numbers of requests per month was registered in the first half of 2000 as

compared to the previous year (780 applications in April 2000 compared to 1,176 in April 1999 ; 865 applications in May 2000 compared to 1,564 in May 1999). Since February 1995, a total of 38,340 persons have applied for naturalisation, and 34,866 of these have been granted citizenship (in comparison, at the time of the last regular report, 25,717 applications had been received and 18,089 had been granted citizenship)

Several measures to simplify the procedures had already been taken by last year, including making the history test easier and reducing the fees. The pass rates continue to be around 95%. Nevertheless, the lack of language proficiency and the application fees remain obstacles to naturalisation. Pilot projects combining the obligatory tests for naturalisation with centralised final school exams carried out in the summer of 1999 were not continued, and no changes in any government regulations to make the combined tests possible were adopted.

Additional funds were allocated to strengthen the Naturalisation Board in 1999 in order to deal with increased requests. In the national budget for 2000, the allocation was again decreased, and some staff members (both in Riga and in regional branches) had to be dismissed. Despite the increases in the number of applications for naturalisation and the reduction in funds for the Naturalisation Board, the Board has succeeded in keeping the time period for processing applications for citizenship within reasonable limits. The naturalisation process takes approximately six to seven months in Riga and four to five months in all other parts of Latvia. These waiting times are expected to be reduced further with the completion of the computerisation of the Naturalisation Board branches both in Riga and its regional offices, which is presently underway.

In the meantime, the Naturalisation Board has also been allocated additional functions (from the Citizenship and Migration Board), including registration, deprivation, and loss of citizenship. The provision of adequate funding for the Naturalisation Board is vital in order to permit the proper implementation of all these responsibilities.

As concerns stateless children, even though all children born after August 1991 are eligible (around 19,000), the number of applications has remained low. Altogether, 437 children had been granted citizenship by the end of August 2000. This is mostly because parents wish to naturalise at the same time as their children.

Latvia continues to fulfil all recommendations expressed by the OSCE in the area of citizenship and naturalisation. However, it remains important to increase the distribution of information on the citizenship requirements, since surveys indicate that many non-citizens are hesitant to apply for citizenship because of lack of information on the procedures.

Special passports for non-citizens

The total number of special passports printed since 10 April 1997 amounted to 563,892 by the end of July 2000, representing almost 97.9 % of eligible non-citizens (compared to 78% by mid-September 1999).

The original expiry date of the old Soviet passports was extended from 31 December 1999 to 31 March 2000. Before the end of the deadline, the Latvian authorities ran a publicity campaign to encourage applications. Special efforts were also made to assist with the procedures, for example by visiting elderly persons at home. Following amendments to the Law on the Status of the former USSR Citizens who are not Citizens

of Latvia or any other State adopted by the Parliament at the end of March, non-citizens who missed the deadline of the end of March did not lose their legal status and could still apply for the document but might be subject to a fine, depending on the reasons for the delay. It should be noted that travelling to Russia is easier with a non-citizen passport than with a Latvian passport.

Integration of minorities

In the 1999 Accession Partnership, short-term priorities included "implement further concrete measures for the integration of non-citizens including language training and provide necessary financial support". A number of important relevant developments have taken place during the last year.

The framework document of a National Programme for "The Integration of Society in Latvia" of September 1998 was revised based on comments received during a public hearing phase in the spring of 1999. The final version was adopted by the Cabinet in December 1999 and covers civic participation and political integration, social and regional integration, education, language, culture and information. The new government has demonstrated its commitment to the integration process by including the drawing-up of an integration programme in its May 2000 declaration and adopting a short version of the programme in mid-May 2000. The original schedule of developing concrete projects by March 2000 was postponed to October 2000. A decision was also taken on the implementation structure, foreseeing the establishment of four new institutions: a coordinating institution responsible for the overall implementation (to be placed under the Ministry of Justice), an Integration Council, an Advisory Council and an Integration Foundation, charged with attracting funds to finance the implementation. The government decided in July 2000 that legislation to set up the Integration Foundation should be subject to Parliament's approval. It will be important to allocate sufficient funds in the national budget to guarantee the proper running of these new bodies. Some initiatives have also been launched at regional and local level, where several regions and cities have started to develop their own integration programmes.

Since currently, about 43% of the population has a language other than Latvian as a first language, language training will remain one of the key instruments for the integration of ethnic minorities in the years to come, as reflected in the National Programme on 'The Integration of Society in Latvia'. The Latvian Language Training Programme (1996-2006) presently operates at three levels, including conceptual dialogue, capacity building in the education system and training operations, and the promotion of integration at community level (summer camps, youth clubs etc.). During 1999, about 15000 students and adults underwent language training. The language training programme was expanded in September 1999 due to increasing demands for Latvian language courses. EC Phare is currently the largest single contributor to this multi-donor programme. It is foreseen that as of 2001, the government will take over full responsibility for the management of the programme. There is still a significant shortage of language teachers, and the Latvian government should continue to earmark more funds for language training in the coming years.

As foreseen by the Education Law of 1998, the government has started to implement the transition to bilingual education on the basis of four bi-lingual teaching models or, alternatively, genuinely developed models, subject to approval. Teachers at minority schools had to demonstrate a certain level of proficiency in Latvian. As of 2004, all state-funded schools will provide secondary education (from 10th grade onwards) in the state

language only. Minority education will continue to be available at public schools until 9th grade. Some problems have been encountered in the transition, including the lack of sufficient training for teachers (as concerns language and methodology of bilingual teaching), as well as of teaching materials. The allocation of additional funds in the 2000 national budget to allow for increases in the salaries of language and bilingual teachers is a welcome step.

The Language Law was adopted by the Parliament in July 1999 but not promulgated by the President following concerns voiced, including by the OSCE, the Council of Europe and the European Commission during the first half of 1999 as to the possible incompatibility of the text with international and Community standards as enshrined in the Europe Agreement. The Law was reconsidered by Parliamentary Committees, and the final version was adopted in December 1999. Following the adoption of implementing legislation in August 2000, the Law and these regulations entered into force in September 2000. At the time of adoption of the implementing regulations, the Latvian government also committed itself to introducing further amendments to the regulations before November 2000, and specifically amendments concerning the language requirements for the performance of professional duties in order to further delimit their scope.

In the 1999 Accession Partnership with Latvia included "align the Language Law with international standards and the Europe Agreement" as a short-term priority. Both the Language Law and the implementing regulations are now essentially in conformity with Latvia's international obligations. Furthermore, neither the Language Law itself nor the implementing regulations contain provisions that are manifestly incompatible with Latvia's obligations under the Europe Agreement. However, some of the provisions are worded such that they could give rise to different interpretations.

It will therefore be important that the competent authorities only apply and enforce the Language Law and its implementing regulations to the extent required by a legitimate public interest, having regard to the principle of proportionality, as contained in Article 2 of the Language Law, and in view of Latvia's international obligations, as well as the rights and freedoms guaranteed under the Europe Agreement. These include, for example, the exercise of business activities for enterprises from the European Union (*see chapters 2 and 3 – Free movement of persons and Freedom to provide services*).

Following the entry into force of the Language Law, some initiatives were started to facilitate the implementation of the new provisions. For example, the Daugavpils City Council decided to make translation of official documents available free of charge for persons not able to pay for translation into Latvian.

Linguistic restrictions are also apparent in legislation other than the Language Law. The Law on Television and Radio holds that all films to be shown on television must be dubbed into the state language or have Latvian subtitles. The Election Law prescribes language requirements for Members of Parliament.

Several other elements limiting the integration of non-citizens still persist in the economic sphere. Non-citizens are still not allowed to practise some professions (lawyer, armed security guard and private detective) on the grounds of state security.

1.3. General evaluation

Latvia continues to fulfil the Copenhagen political criteria. The last year saw progress in carrying forward the Public Administration Reform process, including the adoption of a new Civil Service Law; in improving the functioning of the judicial system; and in designing the framework for the fight against corruption. Several important steps were taken to support the integration of non-citizens into Latvian society, including the adoption of a Language Law and implementing regulations that essentially comply with Latvia's international obligations and the Europe Agreement, as well as a Programme for the Integration of Latvia's Society. Latvia has thereby advanced in addressing the short-term priorities of the 1999 Accession Partnership.

It will be necessary to continue and accelerate the Public Administration Reform process, in particular with the adoption of key legislation; to further strengthen the judicial system; and to continue the fight against corruption on a broad scale. On the basis of the new Civil Service Law, Latvia needs to develop a professional and stable civil service and to improve the capacity of the public administration to implement and manage the *acquis*, as suggested by the relevant medium-term priorities of the 1999 Accession Partnership.

To facilitate and promote the integration of non-citizens, the effectiveness of the Naturalisation process needs to be maintained and Latvian language training needs to continue and be expanded in accordance with the relevant medium-term priority of the 1999 Accession Partnership. It will also be important to ensure that sufficient resources are allocated to measures promoting the integration of non-citizens. The Language Law and its implementing regulations need to only be applied and enforced to the extent required by a legitimate public interest, having regard to the principle of proportionality and in conformity with Latvia's international obligations and the Europe Agreement.

2. Economic criteria

2.1. Introduction

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

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

Further progress was noted in the 1998 regular report. In its 1999 regular report, the Commission found that:

"Latvia can be regarded as a functioning market economy. It should be able to cope with competitive pressures within the Union in the medium term, provided that it maintains macroeconomic stability and commits itself to completing structural reform."

In examining the economic developments in Latvia since the Opinion, the Commission's approach is 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 previous regular reports.

2.2. Economic developments

Latvia's macroeconomic situation has improved in the past year. The economic recession in the wake of the Russian crisis in 1998 was followed by an important recovery starting at the end of last year. Real GDP growth jumped to 5.1% in the first half of 2000. Trade with the EC has been growing continuously. The still sizeable current account deficit has been showing modest improvements since the end of 1999. Foreign capital inflows have continued to increase, partly offsetting the shortfall on the current account. Low inflation and a stable financial sector have allowed stable monetary conditions. However, inflation has accelerated somewhat from low levels in recent months, while unemployment remains high. In 1999, the stagnation of economic growth resulted in a general government deficit of roughly 4% of GDP. The budget for 2000 envisages that tight spending limits and increases in tax revenues arising from the recovery in growth will yield a general government deficit of 1.9%.

Latvia		1996	1997	1998	1999	2000 latest
Real GDP growth rate	per cent	3.3	8.6	3.9	0.1	5.1 Jan-June
Inflation rate ²						
- annual average	per cent	17.6	8.4	4.7	2.4	2.7 ³ June
- December-on-December	per cent	13.2	7.0	2.8	3.2	2.4 June
Unemployment rate, end-year						
- ILO definition	per cent	18.3	14.4	13.8	14.5	:
General government budget balance						
	per cent of GDP	-1.7	0.1	-0.8	-3.8	:
Current account balance						
	per cent of GDP	-5.5	-6.1	-11.7	-10.6	-5.7 E Jan-June
	million €	-220	305	-632	-602	:
Foreign debt						
- debt export ratio	per cent	20.1	20.8	30.4	45.4E	:
- gross foreign debt	million €	414	526	847	1,214E	:
Foreign direct investment in flow						
- balance of payments data	per cent of GDP	7.5	9.2	5.9	5.9	
	million €	301	460	318	335	

E = Estimates

The government has continued to address the structural deficiencies of the economy. Considerable progress has been made in the area of fiscal reform and in the financial sector. First steps to implement urgently needed adjustments in the pension system have been taken. In February 2000, the Law on State-Funded Pensions which constitutes the legal framework for the second pillar of the pension system was adopted. Measures to improve the business climate in Latvia are underway. Among other things, they focus on reducing the costs of creating new businesses. Privatisation and enterprise restructuring slowed down in 1999, whereas active labour markets policies and adjustments in the agricultural sector gained in political importance.

² PROXY HICP since 1999 (see methodological notes)

³ Moving 12 month average rate of change

Main Indicators of Economic Structure in 1999		
Population (average)	thousand	2,432
GDP per head ⁴	PPS-€	5,786
	Per cent of EU average	27
Share of agriculture ⁵ in:		
- gross value added	per cent	4.0
- employment	per cent	15.3
Investment-to-GDP ratio ⁶	per cent	25.0
Gross foreign debt/GDP ⁷	per cent	21.2
Exports of goods & services/GDP	per cent	46.7
Stock of foreign direct investment	million €	1,773
End of 1999 data (Eurostat)	€ per head	729

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

The inauguration of the new coalition government in May 2000 did not imply any major changes in the area of economic policies. The conduct of economic policies remains consistent with the strategies previously adopted. Important objectives are: to continue fiscal consolidation and pension reform, to complete the privatisation of large-scale companies within the coming year, and to reduce the unemployment rate to 8% in the course of one year. In February 1999, Latvia signed a Joint Assessment of Economic

⁴ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

⁵ Agriculture, hunting, forestry and fishing.

⁶ Data refer to Gross fixed capital formation as % of GDP.

⁷ The 1999 data for foreign debt are estimates.

Policy Priorities with the European Commission services, based on its medium-term economic strategy, which covers the period to 2003. It establishes the framework of economic policy measures in order to maintain macroeconomic stability and accelerate progress in structural reforms. Whilst there is a broad consensus on most important issues of economic policy as well as on speeding up preparations for Latvia's EU accession, privatisation continues to be the most controversial political topic.

At the end of 1999, the IMF approved a 16-month stand-by arrangement for Latvia. The Latvian government agreed on a tough reform agenda, which includes some difficult measures in the public sector. The programme focuses on reducing the consolidated budget deficit from about 4% of GDP in 1999 to 2% in 2000 and 1% in 2001. As the social insurance sector accounts for nearly one third of the consolidated general government budget, the government committed itself to curbing the deficits in this area. However, latest developments indicate that the government might not manage to meet the agreed deficit reductions.

In 1999, real GDP increased by 0.1% year-on-year and it continues to increase in 2000. The first half of 1999 was still negatively affected by the Russian crisis, but the results of the last two quarters were increasingly positive, confirming that the recession has bottomed out. Overall, industrial production output fell by 9.8% year-on-year, but towards the end of the year production recovered to the levels of 1998. This carried through into the first half of 2000, with industrial output increasing by 5.5%, compared to the corresponding period of the previous year. Real GDP growth in the first half amounted to 5.1% year-on-year, which was higher than expected.

The pick up in growth has been driven mainly by external demand. Private consumption grew only modestly in 1999 by 0.8 %, while public consumption was reduced by 6.7%. Considering the positive economic developments of recent months, the government has revised its economic forecasts, and now expects 3.5 to 4% growths in 2000.

There are no clear signs of falling unemployment. The rate of jobseekers, which is broadly equivalent to the ILO definition of the unemployment rate, has shown a slight upward move since the last quarter of 1999 and amounted to about 14% in the first quarter of 2000. Unemployment shows large regional differences. The eastern parts of Latvia are still particularly affected, with unemployment rates higher than 20%.

Throughout 1999 inflation in Latvia was low at an average of 2.4%, but it picked up to 3.7% in April 2000. This reflects higher energy and transport prices and an increase in administered prices and excise tax rates. Since May, inflation has decreased again. Producer prices dropped by 4% in 1999, but have shown a slight upward tendency in the first half of 2000.

The monetary policy responses have been appropriate. Low growth and low inflationary expectations, in an environment of financial sector stability, led to an easing of monetary policy until the first half of 2000. With the economy showing accelerating growth rates, the Bank of Latvia tightened monetary conditions in the middle of the year. The Latvian currency has been pegged to the Special Drawing Rights (SDR) basket of currencies within narrow bands since 1994, and over the years this arrangement has served well in maintaining monetary stability. The Bank of Latvia has announced that the exchange rate peg of the lats to the SDR will probably be maintained during the pre-accession period.

However, the Bank considers itself to be technically prepared to switch the peg to the euro at any time.

The consolidated general government deficit was 3.8% of GDP in 1999. Economic stagnation in 1999 resulted in very low (0.3%) growth of general government revenues while expenditure increased by 9.9%. Increased social spending and pension outlays, because of pre-election commitments in late 1998, made fiscal policy strongly expansionary in 1999. The 2000 budget envisages a reduction of the general government deficit to 1.9% of GDP, which the government plans to achieve by tight spending limits and an increase in tax revenues arising from the recovery in growth. Significant changes were made in the state budget planning. The government has become concerned about the potential conflict between the use of special budgets and the objective of improving budgetary planning. Certain earmarked revenues will be abolished, and some special budget revenues will be incorporated into the basic budget. In line with earlier proposals to broaden the tax base and simplify the tax system, the rate of social security contributions paid by employers was lowered by one percentage point (from 28.1% to 27.1%), the property tax was eliminated, and the multiple rates for real estate taxes, which ranged from 0.5% to 4%, were harmonised at 1.5% of real asset values. These measures should also help to reduce the size of the shadow economy. In an effort to improve tax collection, the state revenue service is being reformed.

The latest developments in the area of fiscal policy suggest that Latvia will not meet its targets and fiscal consolidation will proceed more slowly. In the summer of 2000, the government submitted a supplementary general government budget for the current year. According to this draft budget the fiscal deficit is expected to increase to 2.7% of GDP, which is clearly higher than the target of 2% agreed with the IMF. Moreover, the budget draft for 2001 envisages a general government budget deficit of 1.75% of GDP, whereas the agreement with the IMF foresees a further consolidation bringing down the deficit to 1% in 2001.

Despite a rise of 26% year-on-year, total government debt remains at a low level, amounting to 13.9% of GDP at the end of 1999. Lower than expected privatisation receipts contributed to the greater than expected financing gap, since the government was compelled to rely heavily on borrowing. Privatisation receipts will continue to play an important role in terms of financing the budget. However, there is a need to continue fiscal consolidation in the medium term, as privatisation revenues will gradually decrease.

The current account deficit remains the key vulnerability of the Latvian economy. A deficit of 10.2% of GDP was recorded in 1999, compared to 10.6% in the previous year. Imports declined faster than exports, resulting in a trade deficit lower than in 1998. While the trade and the services balance improved, the balance on factor income and current transfers deteriorated remarkably in 1999. The financial and capital accounts showed a surplus; net foreign direct investments covered more than half of the current account deficit. In the first quarter of 2000, the current account deficit improved further to 4% to GDP.

Market forces freely determine the prices of a majority of goods. Administered prices represent 22.3% of the consumer price basket and, where they concern prices for services of natural monopolies, cost recovery is generally aimed for by the introduction of new payment schedules. Trade and foreign exchange regimes have been liberalised.

Overall, the private sector accounts for 68% of GDP. It employs about 70% of the economically active population of Latvia. In industry, agriculture and trade, more than 90% of companies are privately owned. Privatisation of land has progressed - based on the reform of the Land Books and on the completion of land registration in the State Land Cadastre.

Enterprise privatisation is close to completion in Latvia, but there was hardly any progress over the year. Plans for privatising the few remaining large-scale enterprises have been delayed for the last two years. This means, in fact, that some of the most lucrative assets of the largest enterprises in utilities and infrastructure are still in state hands. This applies to the Latvian Shipping Company (Lasco), Ventspils Nafta, Latvenergo and Lattelekom. In March 2000, the Latvian Privatisation Agency (LPA) sold 26,85% of the gas utility Latvijas Gaze via the Riga Stock Exchange. This was Latvia's biggest privatisation deal so far; its revenue amounted to about €40 million. After the sale, the Latvian state owns only 10% of the company. However, after the failure of the sale in June 1999, further attempts to find a suitable strategic investor in the Latvian Shipping Company (Lasco) – Latvia's second largest enterprise – were unsuccessful. This can be attributed to the poor preparation of the deal and the government's intention to keep a golden share in the company. The sale of the 44% stake of the state has been scheduled now for the first quarter of 2001. In February 2000, the Latvian government approved a plan of restructuring and partial privatisation of the energy supplier Latvenergo. In August 2000, Parliament nullified the decision of the government by adopting amendments to the energy law which block the - even partial - sale of Latvenergo. Finally, the sale of the state's majority stake in Lattelekom, Latvia's telecommunications supplier, is complicated by the renegotiations of the end of Lattelekom's fixed-line monopoly, which is set to be moved forward from 2013 to 2003. Aiming to speed up completion of enterprise privatisation, the government decided to involve international investment banks and consultants in the divestiture of the remaining large enterprises. The support of independent professionals should help to increase the transparency and efficiency of privatisation, as well as take enterprise-related economic decisions out of the political sphere.

The environment for developing the ownership and corporate governance system still needs further strengthening. This concerns in particular the financial system and the implementation of the legislation on competition, bankruptcy, registration, transfer and enforcement of ownership rights. Results for economic performance suggest that restructuring has been deeper in companies with foreign ownership, in terms of their capacity to develop new products and markets and introduce new management and production techniques. Domestically owned enterprises are characterised by lower investments, lower wages, and difficult access to finance, although they show good results for profitability and factor productivity.

The legal framework for enterprises is broadly in place. In the spring of 2000, a new Commercial Code was adopted, streamlining administrative procedures, bringing commercial regulations more in line with EC requirements, and simplifying business registration. The simplifications may remove some of the shortcomings with regard to the inconsistent interpretation and application of commercial laws by the authorities. The company register is functioning well. In 1999, more than 8,200 new enterprises were registered, whereas nearly 2,400 were liquidated. Figures for the first half of 2000 show about 3,900 registered start-ups and around 1,100 enterprise liquidations.

The restructuring of the Latvian banking sector is virtually completed, with nearly all assets in private hands. The state owns only one commercial bank. In 1999, the total number of banks was reduced to 23 as two mergers took place and two banks were closed. Non-residents hold 62% of the banking sector's total assets and foreign banks run six subsidiaries and one branch in Latvia. In May 2000, Rigas Komerbanka, which, after having been severely hit by the Russian crisis, was re-capitalised and re-opened in October 1999, was sold to a foreign bank under its new name Primas Latvijas Komerbanka. Though the banking sector has been well restructured, further consolidation is expected to take place in the near future. In August 2000, another foreign bank announced plans to buy 100% of its three subsidiaries in the Baltic region, which includes Latvijas Unibanka. That will create the region's largest financial group. Currently, five banks dominate the Latvian banking scene accounting for 61% of total assets; the two largest for 38%. Small domestic banks increasingly face problems on the interbank market, which limit their liquidity and hence their ability to extend credit.

In recent years, the Latvian banking sector has strengthened considerably, and has contributed positively to macroeconomic stability. The introduction of prudential regulations and tough banking supervision has set up an appropriate framework for banking operations. As a result of the Russian crisis in 1998, supervision and regulations have been tightened further. Overall, the banks in Latvia are well capitalised. Whereas the Law on Credit Institutions requires a minimum capital adequacy ratio of 10%, the capital adequacy ratio reached 15% at the end of 1999, and has been rising since then to its recent level of 16%. The shares of non-performing loans have been decreasing to about 7% of total loans, excluding the burden resulting from the Rigas Komerbanka crisis. Only 1% of total loans is classified as lost. Moreover, two thirds of the non-performing loans are covered by provisions. In 1999, the Latvian banking sector returned to a small profit of about €20 million, which indicates that it has overcome the impacts of the Russian crisis. Direct exposure to Russia was reduced to 2.5% of total assets. Total assets rose by 21.4%, total deposits went up by 23.8%, while loans grew by 16.1%. These positive trends have been continuing this year.

Financial intermediation has been growing with the improved conditions of banks, even though from low levels. Banks are increasingly starting to channel savings towards the private sector. Domestic credit accounts for about 26% of GDP, up from 20% a year earlier.

The non-bank financial sector has been expanding, although it is still underdeveloped. A number of insurance and leasing companies have successfully entered the Latvian markets. The capital market has also developed. At the Riga Stock Exchange, more than 70 enterprises are quoted, with a total capitalisation value of 14.2% of GDP. The privatisation of attractive state-owned enterprises such as Lattelekom is expected to push up this ratio.

Latvia will merge financial sector supervision into a single institution. In June 2000, the Latvian Parliament adopted the Law on the Financial and Capital Market Supervision Commission, which provides the legal basis for merging the existing financial sector supervisors into one single entity, including the supervision department of the Bank of Latvia. This measure aims at enhancing stability and safety of the financial markets, although it is too early to judge implementation.

Latvia can be regarded as a functioning market economy. Latvia has preserved macroeconomic stability. However, the current-account deficit must be kept under

control and, given Latvia's exchange rate arrangement and its degree of capital liberalisation, continued fiscal discipline will continue to be the main instrument. Fiscal consolidation should be pursued with high priority. Progress has been made also on structural reform. The legislative framework for a market economy is largely in place and market entry and exit mechanisms function in an increasingly satisfactory manner. Completion of enterprise privatisation should be carried out without any further delays and in a transparent manner. The financial sector is currently functioning well, but financial intermediation needs to increase.

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

Latvia's ability to fulfil this criterion depends on the existence of 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 EC Member States provide evidence of this.

The existence of a market economy, with sufficient macroeconomic stability and progress on structural reforms, has established a favourable environment for stronger economic growth and competitiveness. On the whole, economic policy has been conducted with a sufficient degree of predictability to allow proper decision making by economic agents. Macroeconomic stability has improved but sustainability must be secured. The Latvian economy remains externally vulnerable and fiscal consolidation is not fully achieved.

Latvia has a relatively well-educated workforce, representing an attractive factor for foreign investment. Nevertheless, strong investments in human resources are needed to address the challenge of deepening structural unemployment. The restructuring of the remaining large enterprises and the adjustments in the agricultural sector, as well as permanent technological changes, will result in an increasing number of temporarily unemployed people who need to be trained or re-trained before they can be re-employed. In this respect, active labour-market policies are needed to improve the response of the labour market to growth. The regional disparities in unemployment need also to be addressed in a larger economic development context.

Investment rates have declined from the high levels reached until 1998. Latvia experienced adequate growth rates for investment, though starting from a low level. These rates reached about 20% per year in 1996 and 1997, and accelerated to 27.3% in 1998. Strong inflows of foreign direct investment related to privatisation and greenfield investments were the main contributing factors. In 1999, in the wake of the Russian crisis, total investments decreased but at the same time foreign direct investment showed a modest increase. The total share of fixed investment to GDP amounted to 25% in 1999 and would need to be raised again to enhance the productive capacity of the Latvian economy. Pursuing fiscal consolidation, the government decided to reduce the public investment to GDP ratio to 3.6% in 2000, whereas it was originally planned to be 4.8%. However, government will need to assess expenditure cuts in a medium-term perspective,

because cuts in investment projects in the public sector reduce the conditions for greater economic growth in the future.

The Latvian authorities have undertaken serious efforts to improve the business climate in Latvia. Based on the Report on Administrative Barriers to Investment in Latvia prepared by the Foreign Investment Advisory Service of the World Bank Group in 1998, the government approved in 1999 an Action Plan in order to remove barriers to business activities. The initiative was backed by the work of the Foreign Investors' Council in Latvia. Meanwhile, the efforts of both have been pooled, resulting in a revised Action Plan, which was approved in February 2000 (*see chapter 15 – Industrial policy*).

The agricultural sector has been declining dramatically. Currently it has a share in GDP of only 4.4% but employs 15.3% of the total work force. Low productivity, quality problems and increasing external competition have put the Latvian agricultural sector under constant and severe pressure. While recognising the serious implications for people who depend on the sale of farm output, the restructuring of the sector, where possible accompanied by compensatory measures, is urgently needed.

Latvia has made further progress in reorienting its trade towards the EC. Trade relations with the EC have deepened considerably, but Latvia has also successfully extended its trade with other Western partners. The share of exports to the EC has been increasing strongly over the last years to 68% of total Latvian exports in the first quarter of 2000. In 1999, the EC absorbed 62.5% of Latvian exports, compared with 56.6% in 1998 and 48.9% in 1997. Although this partly reflects the contraction in exports to CIS countries, productivity gains, particularly in manufacturing, do also play a role. More than half of Latvia's exports to the EC are wood (and articles made of wood), followed in second place by textiles, which formed nearly 20% of total exports to the EC in 1998 and 1999. On the import side the share of the EC was 53.5% in the first quarter of 2000, and 54.5% in 1999, which is slightly down from the previous year. The largest categories of imports from the EC have been machinery and equipment with 27% in 1999 (28% in 1998) and agricultural goods (11% in 1999; against 15% in 1998). There is thus little evidence of intra-industry trade.

Supported by foreign direct investment, the Latvian industry is on its way to upgrading its productive capacity. A large part of the production devoted to exports is still based on relatively low unit labour cost. In sectors where Latvia benefits from comparative advantages, such as the wood processing and paper industry, efforts are being made to move up the value-added chain. Improved product quality and marketing skills support the increasing competitiveness of Latvian goods. The differences in the types of exported and imported goods reflect the state of ongoing industry restructuring, and indicate that there is room for substantial productivity gains.

Latvia's good trade performance is evidence that some of its production is competitive on Western markets despite a real appreciation of the exchange rate. In 1999 the CPI-based exchange rate of the lats appreciated by 4.7% against the currencies of the major trade partners. In the first quarter of 2000, it appreciated by 3.8% compared to the corresponding period of the previous year. However, the exchange rate based on unit labour costs declined.

One of the most dynamic parts of the economy is the services sector. It contributes almost one third to the total exports of goods and services mainly based on Latvia's role as a transit route between Western Europe and Russia. Transit trade represents one of the

most important features in Latvia's growing services sector. In 1999, transit trade and related services contributed a share of about 14.5% to GDP.

Small and medium sized enterprises form the backbone of the Latvian economy. They produce about two thirds of GDP and employ nearly two thirds of the workers and employees. The government has committed itself to supporting SME development by pursuing an SME-related National Programme, which was adopted already in 1997 and is currently under review. This programme includes measures to endow management with entrepreneurial skills, to enhance the qualifications of workers, to make relevant information more easily and widely available, and to improve SMEs' access to outside finance. Insufficient access to appropriate financing resources remains one of the main problem. Though a number of loan projects for SMEs have been established, enterprises often fail to secure finance because banks require high levels of collateral, especially from start-ups (*see also chapter 16 – Small and medium-sized enterprises*).

Latvia should be able to cope with competitive pressure and market forces in the Union in the medium term, provided that it completes and maintains the pace of its structural reforms. Macroeconomic stability has been maintained, although continued fiscal discipline is needed. Latvia has deepened its trade integration with the EC. Productivity gains and higher standards in product quality have improved the competitiveness of some sectors of industry and of services. In order to accelerate and spread this favourable development to the whole economy, considerable efforts are needed to encourage private and public investments and to enhance the market oriented skills of the workforce. Labour market flexibility should also be enhanced. In addition to its action plan to remove barriers to business activities by foreign investors, Latvia should continue to foster domestic enterprise creation by making entry procedures simpler and more transparent, and by improving the access to finance.

2.4. General evaluation

Latvia can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces in the Union in the medium term, provided that it completes and maintains the pace of its structural reforms.

Latvia has preserved macroeconomic stability. Progress has been made also on structural reform. The legislative framework for a market economy is largely in place and market entry and exit mechanisms function in an increasingly satisfactory manner. The financial sector is currently small but functions well.

However, the current-account deficit must be kept under control. Enterprise privatisation has not yet been completed. Considerable efforts are needed to encourage private and public investments and to enhance the market oriented skills of the workforce.

The authorities must continue a policy of fiscal discipline and fiscal consolidation should be pursued. Completion of enterprise privatisation for the remaining large companies should be carried out without any further delays. Latvia should continue to foster domestic enterprise creation by making entry procedures simpler and more transparent, by further improving the environment for foreign investors, and by enhancing infrastructures and access to finance. Financial intermediation needs to increase. Labour market flexibility should also be enhanced.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 1999 regular report on Latvia's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*⁸, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Latvia's ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine negotiating chapters, and incorporates also an assessment of Latvia's administrative capacity to implement the *acquis* in its various aspects (in previous regular reports this had been covered in a separate section). Furthermore, for the first time, a separate section has been included assessing progress made by Latvia in translating the *acquis* into its official language.

The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership, which has become a central issue in the negotiation process.

The European Council in Feira in June 2000 recalled the link between progress in the negotiations and the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Latvia's administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 1999 regular report, the Commission concluded that:

“Latvia has made important progress in aligning further its legislation to the internal market *acquis*, in particular as regards sector-specific legislation for the free movement of goods, free movement of services, competition and state aids. Competition and state aids authorities have become operational and function well. Steady progress have been made also in taxation, energy and rail transport. Important improvements can be noted in environment, in particular on environmental impact assessment and air quality. In the field of justice and home affairs, there have been positive developments, notably as regards visas and asylum.

Significant work remains to be done on intellectual and industrial property protection, in particular on the enforcement side, on data protection and company law. Substantial

⁸ A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Latvia's application for EU membership.

efforts need to be made in telecommunications, agriculture, and fisheries and regional policy where structures need to be adapted to the requirements of the *acquis*. Much remains to be done to establish an adequate financial control system. Attention needs to be paid to developing the capacity to implement the social *acquis* and to ensure a well-functioning customs administration. The impressive programme of alignment and strategic planning in environment needs to be translated into concrete steps in implementation and enforcement. Police capacity and coordination of the fight against organised crime have to be strengthened.

Latvia has continued to address the Accession Partnership short-term priorities in a satisfactory manner demonstrating good progress in aligning its legislation to the *acquis* and in setting up the structures required to implement it in most areas. However, the delays in implementing general public administration reform have weakened its capacity in this respect. The implementation and enforcement capacity priority should be addressed in a more systematic manner, with an emphasis on telecommunications, agriculture, customs and tax administration, maritime safety and financial control."

3.1. The chapters of the *acquis*

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

Chapter 1: Free movement of goods

Since the last regular report, Latvia has made good progress in aligning its legislation with the *acquis* and in strengthening the relevant administrative structures.

In the area of **horizontal and procedural measures**, an important step forward in the alignment with the *principles of New and Global Approach* was the adoption by the Parliament of the Amendments to the Law on Conformity Assessment in October 1999. This had been a short-term priority of the 1999 Accession Partnership. The amended law has been developed in accordance with the EC principles on a global approach to conformity assessment and constitutes the basis for the Conformity Assessment system in Latvia. The adoption of two implementing regulations respectively in April and May 2000 incorporating the EC regulations on conformity assessment procedures completes the overall conformity assessment legislative structure. In the field of standardisation there is a sustainable development, which corresponds to the 1999 Accession Partnership priority. By September 2000, 2752 standards were adopted, including 282 International standards and 2280 European standards. In the area of *market surveillance*, the Product and Services Safety law was adopted in June 2000 and constitutes the basis for the reform of the market surveillance authorities. The further development of the market surveillance system was a priority of the 1999 Accession Partnership.

Progress can also be reported on the adoption of **sector-specific legislation**, which had been a short-term priority of the 1999 Accession Partnership. In the areas covered by *New*

Approach Directives, since the last regular report, progress has notably been made in the implementation of the *acquis* on toys, lifting equipment, machinery, electrical equipment, medical devices and pressure vessels. Regulations on the safety of toys and on conformity assessment of designing, manufacturing and installation of lifts and their safety components were adopted in April 2000. Regulations on safety of machinery, on the electrical safety of equipment, on the electromagnetic compatibility of apparatus, on safety equipment and protective systems intended for use in potentially explosive atmospheres and on pressure equipment and their accessories were adopted in May 2000. Moreover in order to improve the process of the adoption and implementation requirement for medical devices, the amendments to the law on medical treatment were adopted in June 2000. Since the last regular report there has been no significant progress in the field of appliances burning gas and recreational craft.

As regards sectors covered by *Old Approach Directives*, progress has been made in the implementation of the *acquis* on chemicals. Regulations on restrictions and limitation and on the marketing and use of dangerous chemical substances and dangerous chemical preparations were adopted in April 2000. In the field of pharmaceuticals the general framework has already established a considerable degree of alignment with the *acquis*. The law on pharmaceutical activities, adopted in 1997, was amended in 2000. This law provides the general legal framework on issues such as manufacturing, development, classification, registration, testing, prices and price control, distribution, labelling and advertising. As concerns food safety, regulations on foodstuff labelling were adopted in February 2000. They partially transpose directives on labelling and also include provisions for the labelling of genetically modified foodstuffs. Regarding glass, regulations on the labelling of crystal glass were adopted in February 2000, thereby implementing the *acquis*. Since the last regular report there has been no significant progress with regard to wood, textiles and cosmetics.

As concerns the development of Latvia's administrative capacity for the implementation of horizontal and procedural measures and sector-specific legislation, further progress has been made in strengthening the necessary framework institutions in particular in accreditation, standardisation and metrology in regard of assuring their independence and the quality of their functioning. The Latvian National Accreditation Council was established in March 2000. It takes an advisory role in this area. The Council consists of representatives from industry, consumers, science, trade, Government institutions, standardisation, metrology and accreditation bodies. Since the new Law on Conformity Assessment came into effect in March 2000, the Latvian National Accreditation Office has become an independent non-profit organisation, but remains under state ownership. The change in status should allow the Office to increase collection of fees and to employ more personnel. Currently, the number of permanent staff is 11 and external assessors are still being used. By July 2000, the Latvian National Accreditation Office had accredited 115 testing laboratories; 1 personnel certification body; 3 product certification institutions; 5 calibration laboratories, 6 inspections and 1 quality system certification body.

In the field of standardisation, a substantial increase in the budget allocation to Latvian Standards Ltd as well as an increase in its staff from 17 to 22 can be noted. In the field of metrology under the new Law on Conformity Assessment, the Latvian National Metrology Centre is to become a state agency under the supervision of the Ministry of Economy. As regards sector-specific legislation, the Chemicals Bureau was established at the beginning of 2000 in the Latvian Environmental Data Centre. The Bureau is

responsible for collecting information for registration purposes and is the competent authority for the notification of new substances (*see chapter 22 – Environment*).

Since the last regular report, no important developments have taken place as regards **non-harmonised areas**.

Progress can be reported in the field of **public procurement**. The 1999 Accession Partnership mentioned continuing alignment, in particular of legislation on utilities and remedies, as a short-term priority. The main Latvian legislation in this field, the Law on government and municipal procurement was amended in March 2000. The amendments have improved the information flow. The Law on works, supplies, lease and services procured by entities operating in the public utilities sector was adopted in November 1999 and entered into force in July 2000. The new law foresees the creation of a Public Procurement Surveillance Bureau (*see A.b – Relations between the European Union and Latvia*).

Overall assessment

Over the last few years, progress in establishing or rather upgrading the general framework for the New Approach and Old Approach remains steady and the Latvian authorities continue the transposition of sectoral directives respecting their commitments. The main challenge remains to upgrade the quality of the existing legislation in order to assure a high quality transposition of the *acquis* as well as to implement a coherent policy for efficient market surveillance.

The basis for the reform of the market surveillance authorities has now been established with the adoption of the Product and Services Safety Law in June 2000. The establishment of the Market Surveillance Council is planned to be accomplished at the end of November 2000.

In the area of public procurement, there are still a number of issues where the Latvian legislation deviates from the *acquis* and a greater centralisation of the procurement system is needed. Following the entry into force of the relevant legislation in July 2000, the Public Procurement Surveillance Bureau now needs to be set up.

As to the administrative capacity, the Latvian accreditation and standardisation bodies have been in place for years and the Latvian authorities continue strengthening their administrative capacity. The Accreditation Council together with the Latvian National Accreditation Bureau and the Technical Committees constitutes the accreditation system. Despite being a full member of the European Co-operation for Accreditation since June 1999 and having undergone an assessment according to the European Co-operation for Accreditation requirements in December 1999, the Latvian National Accreditation Office has not yet signed any Mutual Recognition Agreements with other European Co-operation for Accreditation members. However the perspectives are very positive. Mutual Recognition Agreements are needed for mutual recognition of certificates of conformity for products and services.

In the field of metrology, progress continues to be slow and metrology remains an area of weakness. The absence of sufficient national budget allocations has meant that national metrology is inadequately equipped and trained. State metrology supervision is carried out by the State Metrology Inspection. The central inspection office is currently understaffed with only 4 persons. There are metrology centres in 5 regions, employing 20

to 30 persons each. Further improvement and efficiency would be necessary. The measurement system is still too weak to be aligned with internationally recognised ones. A major issue is also the use made of measurements. A large number of professional bodies still mainly use previous standards.

In the field of market surveillance the need for co-ordination between the different bodies has been recognised. At present, the Consumer Rights Protection Centre is responsible for the surveillance of almost all non-food products for which specific requirements exist - electrical products, construction materials and toys (*see chapter 23 – Consumers and Health Protection*). However besides the Consumers Centre there are several state institutions involved in market surveillance activities. The establishment of the Market Surveillance Council at the end of November 2000 will ensure co-ordination between the market surveillance authorities.

For the non-harmonised areas, the administrative structures and notification procedures need to be strengthened in order to comply with the requirements of the *acquis*. In particular, more emphasis needs to be accorded to improving administrative co-operation and to a full internal screening of the legislation in force which affects the implementation of the relevant *acquis*.

As regards safety checks on products at external borders, Latvia still needs to complete the establishment of the appropriate infrastructure, as well as effective administrative co-operation between competent authorities.

Chapter 2: Free movement of persons

Latvia has continued with the preparation of legislation and the required institutional set-up, but no legislation has been adopted since the last regular report.

Regarding **mutual recognition of professional qualifications**, the Latvian law on regulated professions and recognition of professional qualification, including the necessary sectoral regulations, is still pending, however preparations for its implementation have started.

As regards the preparation of national legislation on **citizens' rights** no progress has been reported.

No new developments were reported in the field of the **free movement of workers**, with the exception of new regulations to simplify procedures for receiving work permits.

With a view to the future **co-ordination of social security** systems, Latvia has acquired some experience through the implementation of bilateral agreements in this field. Continued progress has been made through the International Services Division within the State Social Insurance Agency which is co-ordinating all activities in this area.

Overall assessment

Latvia has made little progress in the area of free movement of persons.

As regards the field of mutual recognition of professional qualifications, the relevant legislation still needs to be adopted. It will be important that a clear distinction be made between the respective procedures for academic recognition and for professional

qualifications, in particular in the case of the sectoral directives that foresee automatic recognition.

On citizen rights, legislation should be prepared in order to enable Latvia to implement this *acquis* upon accession. Moreover, implementation will also require certain changes to Latvia's Constitution.

In the field of free movement of workers, Latvia will have to ensure that EU nationals receive equal treatment upon accession. It should therefore start to prepare itself in order to be in the position to guarantee rights for family members, access to civil service employment, rights to remain after having exercised an economic activity as well as supplementary pension rights for workers moving within the Community.

As concerns preparations for participation in the EURES network, steps must be taken to strengthen public employment services.

With a view to the future co-ordination of social security systems, Latvia has reached a good level of understanding in order to cope with the challenge of accession in this field. However, actual implementation will require further institutional strengthening as well as further training and generally more information.

The Language Law and its implementing regulations foresee certain linguistic requirements in areas related to this chapter.

Chapter 3: Freedom to provide services

Since the last regular report, Latvia has made some progress in this field, notably as regards horizontal legislation, on insurance (accounting rules) and institutional strengthening.

In the field of **freedom of establishment and freedom to provide services** progress was made in adopting the Commercial Code in April 2000 which will enter into force in January 2001. No progress was made, however, regarding the 1999 short-term Accession Partnership priority with a view to eliminating the prohibition on the establishment of branches by foreign insurance companies (*see also chapter 5 - Company Law*).

As regards **financial services**, alignment with the *acquis* in the *banking* sector has reached an advanced stage. In March 2000, capital charges for market risks were introduced in line with the *acquis* requirements on capital adequacy. The administrative capacity and implementation structure in banking supervision (55 staff) have been further improved. A substantial degree of compliance with the Basle Core Principles for Effective Banking Supervision has been attained.

In the *insurance* sector progress was made with the adoption of legislation transposing the Directive on Annual Accounts and Consolidated Accounts of Insurance Undertakings. Amendments to other laws in the insurance sector aimed at further alignment of the Latvian legislation in fields such as ancillary insurance, calculation of own financial resources, matching rules and investments of technical provisions.

The administrative capacity of the Insurance Supervision Inspectorate (now 22 staff) was further strengthened which resulted in an increased number of audits and on site visits in insurance companies and pension funds. The Inspectorate has actively developed

international contacts and a number of co-operation agreements with neighbouring countries have been signed.

Regarding *investment services and securities markets*, some progress was made in adopting legislation concerning the capital adequacy of brokerage companies in June 2000 to come into force in July 2001. The Securities Market Commission now employs 23 staff members.

As regards other *institutional developments*, in June 2000 Latvia adopted a Law on Financial and Capital Market Supervision, which will merge the functions of the Supervisory Board of the Bank of Latvia, the Insurance Inspectorate and the Securities Market Supervision, and which will start to be operational in July 2001. In addition, this body will be responsible for the supervision of the Social Insurance Fund.

Latvia has made progress in adopting the law on **personal data protection** in March 2000. This had been a short-term priority in the 1999 Accession Partnership. Under the law a State Data Protection Inspection was established which will start its operations in January 2001 (*see also chapter 24 – Justice and Home Affairs*).

As regards the **information society regulations**, no progress was reported on the adoption of legislation. A working group was, however, set up to prepare draft legislation.

Overall assessment

Overall, Latvia has made good progress in this field and is broadly in line with the *acquis*. A very good level of alignment and implementation has been achieved in the banking sector. Further progress is needed concerning particularly the opening of the insurance sector, the lower level of coverage in the Third Party Motor Liability Directives in the insurance sector as well as the implementation of the securities Directives.

In the field of freedom of establishment and freedom to provide services progress was made in adopting the Commercial Code, but implementation and enforcement of company law should be addressed more vigorously in parallel with a more rigid reform of the judicial system. It will be important that a clear distinction is made between the respective procedures for establishment and the provision of services, for which a simple and speedy procedure should be applied. With regard to the freedom to provide services for craftsmen, traders and farmers, continued attention has to be paid to the constitutional prohibition for foreigners to acquire farmland. The Language Law and its implementing regulations foresee certain linguistic requirements in this area.

As regards financial services, the supervision of the *banking* sector appears to be well organised and transposition of the *acquis* is almost completed. Alignment has been achieved with the banking directives with the exception of the quantitative requirements for the deposit guarantee directive where the current level of coverage is well below the EC minimum.

The *insurance* market has still not been opened to foreign competition, thus no progress was made in complying with the 1999 Accession Partnership priorities in this sector. In order to provide services, foreign insurers are still required to establish a locally

incorporated subsidiary and to obtain a licence from the Insurance Supervision Inspectorate.

Whereas the main principles of the Third Party Motor Liability Insurance Directives are implemented, the main outstanding problem relates to the limits for the minimum cover to be guaranteed by insurance contracts.

Regarding *investment services and securities markets*, further work needs to be done to implement the securities markets directives, particularly as regards investment services and investor compensation schemes. The Securities Market Commission currently employs 24 persons and needs to be further strengthened.

Regarding institutional developments, the banking supervision under the present structure appears to function adequately. The adoption of the new law on supervision is a positive step, but Latvia needs to ensure a satisfactory standard of supervision within the future Single Supervisory Authority for each of the three sectors and to ensure that the new authority can act in an independent manner.

In the field of protection of personal data and the free movement of such data, new legislation was adopted. Further amendments are still necessary as well as adequate and careful preparation to ensure its proper implementation through the State Data Protection Inspection. The independence of the Inspection might not be sufficiently ensured by the new law and it will therefore have to be closely monitored as soon as it becomes operational.

Latvia has made some progress in harmonising with the *acquis* in the field of information society regulations. However, the process of actual adoption and implementation of the relevant legislation, including the process of institution building, is still at an early stage. Full and effective implementation of the planned legislative measures will require close monitoring.

Chapter 4: Free movement of capital

Since the last regular report, Latvia has made good progress in aligning with the *acquis*. In particular as concerns capital movements, substantive liberalisation measures have been taken and only few restrictions remain. For payment systems, important steps to implement the *acquis* were carried out.

In the area of **capital movements**, the amendments to the law on radio and television were adopted in October 1999, whereby previously existing restrictions on foreign ownership were abolished. Similar amendments were adopted in November 1999 concerning the law on lottery and gambling. With the new forest law, adopted in February 2000, all formerly existing restrictions on foreign ownership in logging were lifted. Thus, Latvia has made progress in terms of the priorities of the 1999 Accession Partnership, namely to align laws on direct investment in sectors still restricted (*see also A.2 - Relations between the European Union and Latvia*).

Regarding **payment systems**, the Bank of Latvia has implemented a real time gross settlement (RTGS) system, which has been operational since September 2000. A series of regulations in this area was adopted, notably amendments to the regulations for inter-bank settlements and on securities settlement systems.

As concerns **cross border credit transfers**, no further important developments have been reported.

Regarding prevention of **money laundering**, the reporting system and particularly the Office for Prevention of Money Laundering has become more operational. The office has been further strengthened (17 staff), but needs continued financial support in order to strengthen its effectiveness. In 1999, the Office received 1111 reports, and 1791 in the first four months of 2000, due to a new regulation bringing down the threshold for reporting transactions from € 80500 to € 64400 (LVL 50 000 to LVL 40 000) whereas reports are still mainly coming from banks. In 1999, 31 cases were handed over to the Prosecutor's Office, but no convictions have been made so far. The creation of a special unit in the Economic Police in order to investigate money laundering is foreseen.

Since May 2000, the Office is a member of the Egmont group. Agreements exist with the financial intelligence units of Lithuania, Belgium, the Czech Republic, Bulgaria and Finland. In practice, the Office is also working with other financial intelligence units without formal agreements.

Overall assessment

During the last years, Latvia has progressed well with aligning with the *acquis* of this chapter, as well as with its implementation.

In spite of the further alignment achieved during the reporting period, there are still a limited number of areas where restrictions for foreign investors and on capital movements still exist. Latvia is therefore encouraged to abolish the restrictions on the acquisition of land for business purposes. Further restrictions exist regarding the acquisition of land, as well as direct investments in the security sector, special rights maintained by the state in privatised companies, investments in foreign assets by private pension funds and insurance companies, and provision in tax legislation concerning companies' dividends.

In addition, further amendments are necessary in relation to existing restrictions regarding rules and procedures on privatisation in cases where the state or municipalities act as entrepreneurs.

Regarding payment systems, Latvia has achieved a considerable degree of alignment. Concerning the payment infrastructure, a multilateral net settlement system for retail payments (automated clearing house) was introduced in 1998. The introduction of the RTGS system in September 2000 is an important accomplishment. As concerns implementation of legislation, Latvia has partially transposed the Cross-border Credit Transfer Directive. Although further work is still needed to completely implement the *acquis* in this area (including the establishment of an adequate and effective redress scheme for the settlement of disputes), good overall progress has already been reached.

The Bank of Latvia, which assumes the overall responsibility as a supervising authority for credit and financial institutions, operates exchange controls and oversees the payment systems. It has established an adequate regulatory framework and possesses the required administrative capacity for its enforcement.

The implementation of an effective money laundering prevention system on the basis of legislation adopted in 1998 has progressed, but requires further improvements concerning

co-operation with police and other economic or legal bodies as well as continued strengthening of the Financial Intelligence Unit. In particular, co-operation between the Office, the police as well as the commercial sector, including the Latvian Privatisation Agency, should be further improved.

Chapter 5: Company law

Since last year's regular report, Latvia has made good progress in aligning its legislation in this area, in particular with respect to company law and the transposition of the company law directives as well as regarding industrial and intellectual property rights. Some progress was also made in respect of its administrative capacity in this field.

In April 2000, the new Commercial Code was adopted. The new law implements the 1st, 2nd, 3rd, 6th, 11th and 12th **company law** directives and simplifies the legal framework by decreasing the number of types of legal entrepreneurial entities from 17 to 5. The law is to come into effect in January 2001. The process of computerising the companies register within the State Enterprise Register and the Patent Registry in order to meet the requirements of the *acquis* is underway. The Latvian Enterprise Register signed agreements with the European Register of Businesses in October 1999 and April 2000 with a view to membership. Latvia has made good progress in this field which was one of the short-term priorities of the 1999 Accession Partnership.

In the field of *accounting law*, the Law on Consolidated Annual Accounts which aims at full alignment with the 7th accounting directive came into effect in January 2000. In December 1999, amendments to the law on annual accounts, in line with the 4th directive were adopted.

As regards **intellectual property rights**, good progress was made in adopting the new Law on Copyrights and Neighbouring Rights in April 2000, which came into force in May 2000, in order to bring Latvia's legislation in line with the *acquis* in this field. In addition, the Laws on joining the WIPO Copyright Treaty and the WIPO Performance and Phonograms Treaty were adopted in February 2000 and Latvia acceded to both treaties in March 2000.

Regarding **industrial property rights**, the law on accession to the Protocol relating to the Madrid Agreement Concerning International Registration of Marks entered into force in January 2000. In December 1999 the Trademark Law Treaty of 1994 was ratified.

However, little progress was reported concerning the enforcement of copyright and trademark legislation, which was one of the short-term priorities of the 1999 Accession Partnership.

As regards administrative capacity, since January 2000, an Intellectual Property Rights Division is in place within the Ministry of Culture, which is now staffed with three persons. The main tasks of the division are of a legislative nature, and with the adoption of the new law, the Ministry of Culture is also in charge of supervising collecting. The State Police and the Customs Board in the State Revenue Service are both responsible for enforcement of the legislation.

Since September 1999 an Intellectual Property Rights Division is operational at the National Customs Board. Encouraging first results were that 11 criminal cases were prosecuted and an increasing number of CDs, videotapes, audio tapes, software CDs were

seized since 1999, thus giving an indication of the increasing awareness of the authorities of the piracy issue, but also the size of the problem. Nevertheless, Latvia has made only little progress as regards the enforcement of intellectual property rights legislation, including the strengthening of its implementation capacity at the border and the judiciary which was one of the 1999 Accession Partnership priorities in this field.

As concerns the 1988 Lugano Convention, Latvia is seeking adherence, and a working group has been established at the Ministry of Justice to prepare Latvia's accession.

Overall assessment

Overall, Latvia has reached a good degree of alignment with the *acquis* of this chapter. Efforts will now need to concentrate on the proper enforcement of the legislation, especially as concerns intellectual and industrial property rights.

Latvia has made good progress by adopting the Commercial Code. Its legislation is now closely aligned with the *acquis* in the field of company law which has consolidated a number of provisions contained in different legal acts. Further efforts are now needed to fully implement the computerised business register where progress was made. Particular attention has to be paid to the quality of the data registered.

Concerning *accounting law*, Latvia's legislation needs to be further aligned in respect of the 8th directive which lays down important legislation concerning higher professional auditors, quality control and state supervision over auditors and audit companies. This legislation is important for the other laws on accounting to become effective and to overcome the at present existing legislative vacuum on accountancy. Regarding the 7th directive and the recently adopted new law, a few shortcomings as regards the internal compatibility with other laws regulating accountancy need to be addressed. The Latvian legislation on accountancy has to be further harmonised in some other areas, including in the field of deferred taxes. Regarding administrative capacity and taking into account the shared responsibility between the Ministry of Finance and the Ministry of the Economy concerning accounting issues close co-operation needs to be ensured.

Regarding implementation of accounting legislation, Latvia's administrative capacity needs to be improved particularly concerning enforcement of auditing and accounting standards as well as its supervision. Close co-ordination needs to be ensured.

In the field of intellectual property rights, the main concern remains the unsatisfactory level of enforcement. Despite some progress made regarding the institutional set-up, administrative capacity in particular in the Copyright and Neighbouring Rights Division of the Ministry of Culture, the Ministry of the Interior, the Economic Police, Customs and the Judiciary should be strengthened. Increased training is required for the staff of the law enforcement bodies and the judiciary. An adequate level of legal sanctions, fines provisions under Criminal Law and swift legal procedures need to be put in place in order to increase deterrent effects.

As regards industrial property rights, Latvia's trade-mark law is to a large extent in line with the *acquis*. However, as concerns implementation, the protection of trademarks remains a matter of concern. Further amendments are also necessary with respect to patent law.

In order to improve the fight against piracy and counterfeiting, enhanced co-operation between the institutions involved is necessary. Adequate financing has to be ensured.

Chapter 6: Competition policy

Since the last regular report, Latvia has continued aligning its legislation with the anti-trust and State aid *acquis*, and the Competition Council and State Aid Surveillance Commission have continued to develop their enforcement practice.

In the field of **anti-trust**, further block exemptions for a number of different categories of restrictive agreements have been introduced since last year to bring Latvia's legislation closer in line with the *acquis*. These included notably the insurance sector and air transport.

In 1999, the *Competition Council* investigated 58 cases (compared with 78 in 1998) and completed 48 of them. Most of the cases were related to unfair competition (25) and abuse of dominant position (18). There were 5 restrictive agreement cases and 4 merger cases. In three cases, administrative fines were imposed. More than 90% of the cases initiated in 1999 were according to applications of legal persons (in 1998 – 72%), indicating a growing awareness of competition rules by the enterprise sector.

Since January 2000, all **State aid** schemes are covered by State aid control legislation. Previously, this had not been the case for tax extensions and the capitalisation of old tax debts.

In 1999, the *State Aid Surveillance Commission* took three decisions (compared to 8 in 1998). During the first half of 2000, two decisions were adopted. One concerned the capitalisation of tax debts accumulated before privatisation by an enterprise in the pharmaceutical sector and the other one aid to an enterprise producing automated electronic devices. Due to budgetary restraints, this decision has not been implemented.

Overall assessment

The process of legislative alignment nears completion and the necessary institutions have already gained valuable first experiences. Latvia now has to ensure the proper enforcement of competition rules.

In the field of anti-trust, Latvia has made significant progress over the last few years. Its Competition Law, which entered into force at the beginning of 1998, is largely in line with the Community *acquis*. Some further fine-tuning will be necessary to achieve full compliance concerning the definition of dominant position and merger control. Further alignment with secondary legislation is still necessary, especially in view of developments in the *acquis* on vertical restraints.

The Competition Council and its executing body, the Competition Bureau, has broad powers to enforce competition rules. Given the increasing complexity of cases, there might be a need for more training of staff and eventually also an increase in their number (at present, 35 staff members). The most important challenge is now for the Competition Council to show that it can assure the effective application and enforcement of the anti-trust rules, whereby priority should be given to such cases that concern the most serious distortions of competition. At present, many cases concern less serious infringements.

In the State aid field, Latvia has also made significant progress over the last few years. Latvia has adopted a Law on State Aid in 1998 under which the assessment of the compatibility of aid can be carried out by way of direct application of the Europe Agreement and thus the Community *acquis*. Priority must now be given to bringing existing aid measures in line, most notably as regards Special Economic Zones (by eliminating the export aid elements) and Free Ports, as well as State aid to the steel sector.

As regards transparency of aid, Latvia has produced annual reports for 1997 and 1998, which broadly follow the methodology and the presentation of the European Commission's survey on State aid in the EU. Latvia has also established a State aid inventory, and it will have to ensure that it continuously covers all existing aid measures. The regional aid map needs to be finalised to ensure a differentiation of maximum aid intensities in assisted areas, according to the severity of the regional problems being addressed.

The State Aid Surveillance Commission has already taken decisions on new aid measures and appears to be empowered to exercise a regular and systematic ex-ante control of compatibility of all State aid measures. However, the relatively small number of aid cases decided upon by the State Aid Surveillance Commission still leaves some doubt as to whether all aid cases are, in fact, being notified. The State Aid Surveillance Commission will have to show that it can assure the effective application and enforcement of the State aid rules. Some reinforcement of the staffing level of the secretariat of the State Aid Surveillance Commission (under the auspices of the Ministry of Finance) might be necessary, as there are only three staff members at present.

Chapter 7: Agriculture

Agriculture in Latvia accounted for 4% of GDP in 1999, of which 1.4% were constituted by forestry and related services. The share of agriculture in GDP has declined slightly in comparison to 1998 where agriculture made up 4.4% of GDP.⁹ Employment in agriculture (including forestry, hunting and fishing) has remained relatively constant over the past years, accounting for about 15.3% of total employment.¹⁰

The situation in 1999 was particularly difficult for the agricultural sector and saw a decline in total agricultural output by 9.7% as compared to 1998. The sectors mostly hit were pig meat, milk, fish and sugar production. The reasons for this situation can be partially found in the negative impact of the aftermath of the Russian crisis, as well as increased exposure to international competition and low productivity. In the livestock sector, meat production declined by 12% whereas crop production showed a less significant decrease of 3.3%.¹¹

⁹ The source for all agricultural statistics is Eurostat unless otherwise specified.

¹⁰ In order to improve consistency and comparability, the employment figures presented are now defined according to Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture. The agricultural census, which was previously a source of employment data in many countries, takes into account all persons nominally active on a farm. There are therefore some significant differences between previous and new figures. Further information can be found in the Eurostat publication "Central European Countries' Employment and Labour Market Review" available free of charge through the Eurostat Data Shops.

¹¹ Source: FAO.

In 1999, the value of EC imports of agricultural products originating in Latvia decreased to €38.6 million (€42.3 million in 1998). EC exports to Latvia decreased from €229 million in 1998 to €189 million in 1999. The trade balance in favour of the Community amounted to €150 million in 1999, compared to €187 million in 1998.¹² In this context, the new reciprocal concessions for agricultural products negotiated under the Europe Agreement will allow for 75% of bilateral trade in agricultural products to benefit from preferences (*see A.b – Relations between the European Union and Latvia*).

Since the last regular report, no important changes in Latvia's agricultural policy have taken place.

In 2000, the state agricultural budget will amount to approx. €29 million, of which about 3% will finance direct support schemes to farmers. On the basis of a medium-term agricultural support concept (1998-2002), the following types of support will be granted during the year 2000: support for soil improvement, for the increase of farm productivity, to dairy farms fulfilling EC requirements, for the development of livestock and crop farming and fisheries, for the education of farmers, reduction of sowing risks and technical up-grading of agricultural production.

With respect to land reform, limited progress has been made since the last regular report. Whereas registration in the Cadastre has been virtually complete for several years, registration in the Legal Register (Land Book) progresses only slowly and presently stands at 45%.

Horizontal issues

As regards the implementation of measures with a view to preparing for future participation in the *European Agricultural Guidance and Guarantee Fund (EAGGF)*, Latvia has made some progress during the last year. The final version of the Rural Development Plan as adopted in October 2000 describes the main lines of Latvia's rural development strategy and the main objectives to be attained by SAPARD assistance (*see A.b – Relations between the European Union and Latvia*). In April 2000, a law on the Rural Support Service was adopted, which will also provide the legal basis for the implementation of SAPARD.

In November 1999, a Rural Support Service was set up to manage both national agricultural support programmes and to act as the implementation and paying agency for SAPARD funds. It is subordinated to the Ministry of Agriculture and co-operates with nine regional offices. Training for the staff both at central and regional level has started.

Work continued on preparing the introduction of the *Integrated Administration and Control System (IACS)* in Latvia. Legislation for animal identification and registration had already been adopted in 1998, and during the last year, the system was further refined. As of June 2000, the identification and registration of all bovine animals has become compulsory. Detailed instructions for the identification of pigs, sheep and goats were also issued in June 2000.

¹² Source: Uruguay Round Agreement definition of agricultural products, figures taken from Eurostat COMTEXT (see Agriculture in the European Union – statistical and economic information 1999, p. 36 for definition of the products).

Concerning the implementation of *trade mechanisms* relevant for the Common Market Organisations, the responsibilities of the Rural Support Service include the issuing of licenses and the management of tariff quotas.

No important developments in the area of *quality policy (designation of origin etc.)* took place during the last year.

As to preparations for Latvia's participation in the *Farm accountancy data network*, Latvia has continued to work on improving data collection and data processing. In preparation of the Agricultural Census planned for 2001, pilot projects were carried out in two regions. Work on an electronic farm register was completed at the end of 1999 (see chapter 12 – Statistics).

During 1999, a general *restructuring of the Ministry of Agriculture* and its subordinated bodies was launched. The reform aimed at separating analysis and strategic planning (including legal approximation) from administrative functions. The new structure now comprises eight departments: forestry policy and strategy, forest resources and economics, budget and finance, legal affairs, agricultural policy and EU integration, agricultural branches and processing development, veterinary and food, and rural development. A new information centre was established in the Ministry, which is also responsible for information relating to EC agricultural policy.

Common Market Organisations

Since the last regular report, some progress has been made in introducing EC requirements and mechanisms for a limited number of products.

As concerns *arable crops*, during the last year Latvia continued practising intervention in the grain market, which was first introduced in 1998, based on legislation for the stabilisation of the cereals market. For the moment, market intervention is carried out on an annual basis. The Cereal Trade Agency was transformed from a state stock company into an Intervention Agency in September 1999.

Intervention has also been introduced for *sugar* in January 2000 by amendments to the law on sugar. The new sugar law and three implementing regulations, adopted in February 2000, lay down rules for sugar production quotas and their allocation procedures as well as for sales of sugar produced in excess of quotas. Customs duties will be levied on imported sugars.

For *specialised crops*, the introduction of quality standards for *fruit and vegetables* continued and 33 have been adopted to date.

In the area of *animal products*, new legislation was adopted in April 2000 on the quality and labelling of honey in order to conform with Community marketing standards.

Rural development and forestry

During the last year, Latvia continued to implement its national Support Programme for Agriculture (1998-2002), as well as investments under the Public Investment Programme, and other activities aiming to promote rural development. In the framework of the restructuring of the Ministry of Agriculture, a Rural Development Department was

created. It is responsible for the rural environment, education, science and research, and land use.

A Law on Forestry entered into force in March 2000. The law lays down stricter conditions for felling than previously existing legislation and also envisages activities for forest development. Restrictions on foreign investments in the area of logging were lifted in March 2000 (*see chapter 4 – Free movement of capital*). An inventory of state forests was set up. At the administrative level, a State stock company was established and the forestry department of the Ministry of Agriculture reorganised. A concept for the reorganisation of the state institutional structures for the forestry sector was also elaborated.

Veterinary and phytosanitary issues

Continuing alignment and upgrading of inspection arrangements, in particular at the future external border, as well as modernising the meat and dairy processing plants, were identified as short-term priorities in the 1999 Accession Partnership.

Since the last regular report, some progress has been made in aligning with the **veterinary acquis**. As concerns *common measures*, in December 1999, a law on animal protection was adopted in order to implement the basic EC requirements in the area of *animal welfare*. It covers the protection of agricultural animals, pets, animals used for experimental and research purposes, and wild animals. In March 2000, the existing law on pedigree activities was amended, and several pieces of implementing legislation were issued.

In May 2000, a framework law on veterinary medicine was adopted. The law introduces parts of the *acquis* on veterinary medicine and will also serve as a framework for incorporating all veterinary requirements of the *acquis* into national legislation. In June 2000, the identification and registration of all bovine animals became compulsory, and detailed instructions were issued for pigs, sheep and goats, thereby improving the framework for *veterinary control and the control of animal diseases and animal health*. Work on animal diseases in particular has continued, and contingency plans for several diseases have been developed. In order to align with EC standards, *hygiene requirements* were introduced for milk in October 1999 and meat in June 2000.

In 1999, three milk processing enterprises, five fish processing enterprises and three refrigerator ships were granted permission to export to the EC. During 1999, efforts were made to reinforce the administrative capacity of the *State Veterinary Service*. A reorganisation was launched, which included the central body as well as the State Veterinary Medical Diagnostic Centre and the regional laboratories. Additional laboratories were accredited. Training of staff was carried out, and the computing infrastructure was improved. The sampling equipment of the veterinary inspectors was also upgraded with a view to improving veterinary surveillance and centralised transportation of samples.

As concerns sanitary border controls, the instalment of computer programmes to meet EC requirements in the area of veterinary border controls has continued during the last year, and several control posts were equipped. Currently, 25 control posts are connected to the centralised network.

In the **phytosanitary sector**, the process of alignment has continued during the last year. In October 1999, several pieces of legislation were adopted to further align with the *acquis*, including framework legislation on the seed chain and amendments to the law on the protection of plant varieties. Concerning *plant health (harmful organisms and pesticides) and plant hygiene*, regulations covering plant quarantine and plant protection products were also adopted in October 1999. Following the adoption of the regulation on plant quarantine, the registration of producers and importers of certain plants and plant products started in January 2000.

In the area of *animal nutrition*, the Government adopted several regulations to introduce EC requirements in relation to control of pesticide residues and radioactive pollution of animal feedstuffs.

During the last year, the *State Plant Protection Service* underwent a complete reorganisation. The responsibilities of the Service were enhanced with the transfer of responsibilities previously assumed by separate bodies, such as the State Seed Inspectorate and the State Plant Comparative Centre. Two new departments were created in the Service, namely a department for seed control to deal with certification, and a department for plant variety, in charge of recognition, registration and evaluation, as well as plant variety rights. The staff of the Service was practically doubled from 130 to 258 persons. The National Seed Control Laboratory was accredited in May 2000.

Overall assessment

The preparations for the integration of Latvia's agricultural sector into the European Union are still in the early stages. During the last few years, only limited progress has been achieved in aligning with the *acquis* and in setting up the necessary structures.

While land reform and the privatisation of agricultural land are progressing, land consolidation is less advanced. A concept paper on land use has, however, been prepared with a view to developing legislation to consolidate agricultural and forest lands.

Concerning **horizontal issues**, preparations for the future participation in the *European Agricultural Guidance and Guarantee Fund (EAGGF)* need to be continued in order to be in a position to fully implement the *acquis* upon accession. The establishment of the Rural Support Service as SAPARD agency is a first step to familiarising with EAGGF rules and procedures. However, a clear long-term strategy for the extension of the role of the Rural Support Service to become the single paying and implementing agency for all agricultural support under the Common Agricultural Policy and its main executive body is missing.

Progress in preparations for the introduction of the *Integrated Administration and Control System (IACS)* is partial and concerns some of the basic elements of the system. Existing data bases and networks need to be improved further. Particular attention also needs to be devoted to the digitalisation of land parcels according to EC requirements.

As for *trade*, some basic mechanisms exist but need to be complemented.

Latvian legislation already incorporates some of the EC requirements concerning *quality policy*, but the necessary definitions concerning products of specific origin and

geographical indication still need to be introduced and the relevant registration and control bodies need to be set up.

For *organic farming*, the preparations for appropriate control have started. Legal adjustments and the setting-up of the necessary certification and control bodies according to EC requirements still need to take place.

Preparations for the participation in the *Farm accountancy data network* have progressed well, but the respective efforts to be fully in line with Community rules should continue.

As regards the implementation of **Common Market Organisations**, efforts have been limited to certain products and mechanisms, in particular intervention. The intervention system applied in the cereals and sugar sector needs, however, further adjustment in order to be fully in line with Community requirements. Supply management instruments have been set up for sugar. Alignment with the *acquis* marketing standards have been limited to honey and fresh fruit and vegetables. Thus, for all common market organisations, significant legislative work remains to be done.

The recently established Rural Support Service will be the main body responsible for the administration of tasks connected to Common Market Organisations. Significant upgrading and a final decision on the eventual attribution of management tasks to other bodies will be necessary with a view to future participation in the Common Agricultural Policy.

In the area of **rural development and forestry**, the institutional framework has been prepared, in particular by setting up the Rural Development Department and the Rural Support Service and by reorganising the 9 regional offices. For the implementation of *agri-environmental measures*, which will become mandatory upon accession, preparations are in the pilot project stage. For the classification of less-favoured areas, no progress has been made to date. The existing Latvian legislation on forests already incorporates some elements of the *acquis* but further adjustment and investments will be necessary to meet all requirements.

In the **veterinary field**, some progress in aligning with the *acquis* has been made to date, but Latvia needs to make further efforts with the adoption and implementation of legislation. In the area of *veterinary control in the internal market*, work on introducing both the internal computerised system linking veterinary authorities inside the country and an external movement control system (ANIMO) needs to continue. Although the system for identification and registration of bovine animals has almost been completed (it is estimated that 96% of bovine animals are identified and registered), further progress needs to be made for pigs, sheep and goats. Controls at the future external border of the EU are not yet carried out in full compliance with the *acquis*.

As concerns the *control of animal diseases and animal health*, Latvia's legislation on outbreaks and eradication is in line with the *acquis*. Latvia needs to continue the work on establishing contingency plans and to create a reserve fund covering expenses for compensation in the event of an outbreak of an infectious disease. The existing animal disease notification system needs to be further developed in preparation for participating in the animal disease notification system (ADNS). Serious gaps still exist in Latvian legislation with regard to the trade regime of live animals, semen, ova and embryos. Concerning the *treatment of animal waste*, Latvia has so far no establishment for high-risk treatment, and none of the existing low-risk establishments meet EC standards.

Further work on both approximation and implementation will also be required concerning *animal welfare*.

The process of bringing food processing establishments in line with EC requirements is far from being completed. Currently, 9 milk processing enterprises (total: 73 enterprises), 9 fish processing enterprises (total: 117 enterprises) and 4 refrigerator ships (total: 4 ships) have been approved for exporting to the EC.

In the **phytosanitary sector**, despite the adoption of a number of legislative acts with a view to incorporating *acquis* requirements, much still remains to be done. With regard to *plant health (harmful organisms and pesticides)* a number of *acquis* provisions have not yet been transposed, and differences between Latvian and EC lists of harmful organisms and quarantine requirements persist. Alignment in the area of *plant hygiene* is so far limited. Further alignment in the area of *animal nutrition* will equally be necessary, and in particular concerning quality aspects, labelling, composition, packaging, registration and approval of establishments as well as sampling, analysis and administrative matters. Out of 25 feeding stuff establishments, only two comply with EC standards to date. A phytosanitary emergency fund and specific budget allocations will have to be set up. Registration of data needs to be improved, as well as practical official control and sampling.

For both the veterinary and the phytosanitary sector, the limited number of staff in charge of preparing primary legislation still lacks expertise. Further strengthening of the existing administrative structures (including laboratories), better co-ordination between the different authorities involved, as well as significant further upgrading of the border control posts will be necessary. Out of a total of 26 border posts, only four were constructed in compliance with EC standards. It should, however, be noted that not all 26 posts will be kept upon accession to the EU. In addition, continued training of staff and the allocation of sufficient financial resources will be required in order to fully implement the *acquis*.

Chapter 8: Fisheries

Since the last regular report, the process of legislative alignment has continued, and some improvements were made to the administrative structures in charge of controls in ports.

Concerning **market policy**, no new legislation was adopted and no new administrative structures were created.

With regard to **resource management, inspection and control**, to advance with the alignment with the *acquis*, the Fishing Law was amended in March 2000. The amendments aim at establishing an information system in fisheries (including a fishing vessel register), defined the National Board of Fisheries as the competent authority, and readjusted the norms of the Law to vessels fishing in international waters and flying the flag of Latvia. In order to comply with EC requirements for vessels fishing in EU waters, Latvia has started preparations for a pilot project for the introduction of the satellite monitoring system for the fishing fleet. Due to budgetary constraints, this project has not yet been initiated.

The capacities of the administrative body in charge of carrying out fisheries controls in Latvian waters, the Marine Environmental Board, have been enhanced since last year by adding 11 inspectors to the Board's staff (now a total of 69 persons) to improve in

particular controls in ports (landings and first sales). Over the last few years, good progress has been made in improving the control record of the Board, and in 1999, 8370 inspections were carried out and 159 violations detected (compared to 1438 inspections in 1996).

As concerns **structural actions** (including fleet registration), Latvia started to work on complying with EC requirements for the fishing vessel register, and continued to implement its National Fisheries Development Programme, covering fishery, aquaculture and fish processing.

As concerns **State aid to the fisheries sector**, for the year 2000, limited support is envisaged for the modernisation of fishing vessels and refrigerator ships to comply with EC requirements and the installation of satellite monitoring on fishing vessels.

Overall assessment

Latvia has made progress in aligning with the *acquis*, but further work will be necessary. The existing administrative structures are at present only partially able to implement the Common Fisheries Policy.

The Latvian fishing fleet consists of 220 vessels fishing outside two nautical miles, as well as a number of small boats fishing in coastal waters. Outside the Baltic Sea, 12 vessels fish mainly in the Central and Northern Atlantic.

So far, no market intervention mechanism for fish products has been established, and regulations on producer organisations corresponding to EC requirements do not yet exist.

While the installation of satellite monitoring equipment on fishing vessels is envisaged on a small scale, substantial further work is needed for the establishment of a vessel-monitoring centre and for completion of the equipment of all vessels.

Following the amendments to the Fishery Law of March 2000, the legal framework for the implementation of structural policy, in particular for vessel registration, needs to be complemented by secondary legislation concerning vessels measurement, and the fishing vessel register needs to be brought in line with Community requirements. It is estimated that around 400 licensed vessels will eventually be included in the register.

The administrative structures in charge of fisheries will need to be strengthened with a view to the future implementation of the Common Fisheries Policy. The National Board of Fisheries of the Ministry of Agriculture is responsible for fisheries sector management and overall development strategies comprising also the development of structural policy. The Ministry of Environmental Protection and Regional Development and its structures – the Environmental State Inspection, the Marine Environmental Board (MEB), and the Regional Environmental Boards – perform the functions of fish resources protection and fisheries control.

State aid to the fisheries sector consists of subsidies mainly used for structural purposes, including modernisation of fishing vessels. There are no State aids for vessel construction.

Latvia is a member of several international fisheries organisations, in particular IBSFC and NAFO, and has bilateral fisheries agreements with the Faroe Islands (Denmark), Russia, the United States, and Canada. An agreement with Estonia has been signed.

Chapter 9: Transport policy

Following the National Transport Development Programme (2000-2006), alignment with the *acquis* progressed further in the areas of road and maritime transport. To meet the requirements of the *acquis* as concerns administrative structures, an independent investigation authority for civil aviation accidents was established. First steps were undertaken to improve the performance of the administration in the area of maritime safety.

Latvia continued to progressively take into account the objectives and priorities of the Community guidelines for **Trans-European Transport Networks** in the framework of investments in the priority road and rail infrastructures in North-South (Via Baltica) and East-West direction. Latvia has approved the final report on Transport Infrastructure Needs Assessment (TINA) of October 1999 that should form the basis for extending the trans-European networks to Latvia.

As concerns **land transport**, a number of secondary legislative acts were adopted during the last year. Amendments to the Regulation on Control in Road Transport, based on a broader "Government Concept on control in Road Transport" from December 1999 stipulate a subdivision of functions between the various controlling bodies of the Road Transport Administration as well as police, customs and border guards. Several regulations relating to the carriage of dangerous goods by road were adopted in December 1999 and March 2000. As to the *acquis* requirements on checks for transport authorisations, Latvia has started to install equipment to control weights and dimensions at several posts along its borders with Belarus, Russia and Estonia. Legislation concerning roadworthiness tests was issued in February 2000. The Road Transport Directorate, responsible for ensuring control of the sector, organised training activities for the control of dangerous goods transport (24 persons) and for the control on weights and dimensions of vehicles (7 persons). Latvia initialled the INTERBUS agreement in April 2000.

No new legislation was adopted in the area of **railways**. The restructuring of Latvian railways has continued, and competition has started to be introduced in the sector with the granting of licenses for freight transport to two private companies, although they could not yet start to operate pending the safety certificate to be delivered by the State Railway Inspectorate. In October 2000, the Law on Public Service Regulators was adopted, which foresees the establishment of a regulatory authority covering *inter alia* the area of railway transportation.

The responsible Latvian authorities decided not to transpose the legislation on **inland waterways**, since Latvia considers that its inland waterways can in principle not be used for navigation except for a short stretch behind the sea ports, and its networks are not linked to any EU member state or candidate country. In the area of **combined transport**, no legislation was adopted either. As concerns **State aids** in the transport sector, no new developments can be reported. Concerning **public service obligations**, legislation on concessions in public transport was adopted in November 1999.

With regard to **air transport**, no new legislation was adopted. However, in order to meet the requirements of the *acquis*, an independent investigation authority for civil aviation accidents was established in January 2000 and staffed with 2 persons, although the law has not been adopted yet. Latvia continued the effective harmonisation of technical requirements and administrative procedures according to Joint Aviation Authorities requirements. It continued to prepare for membership of Eurocontrol, for which it has already started to apply the relevant standards. Negotiations between the EC and Latvia on the multilateral Agreement to establish a European Common Aviation Area (ECAA), which will result in a significant progressive alignment with the *acquis* prior to accession, have been concluded by signing the bilateral protocol.

Concerning **maritime transport**, the 1999 Accession Partnership refers to the need to align legislation on **maritime safety** as a short-term priority. Since last year, Latvia has adopted legislation requirements for vessels carrying dangerous goods and passenger registration on ships both in April 2000. A process of restructuring the Maritime Administration was launched with the aim of improving its functioning in the light of the comments made in the last regular report. On the basis of legislation adopted in May 2000, several of the functions previously carried out by the Maritime Administration were transferred to the port authorities. These were in particular related to Vessels Traffic System (VTS), pilotage and port captain services. As a consequence of this rationalisation process and redistribution of work, the number of personnel of the Maritime Administration will be reduced. As regards Flag State control, the number of detained registered Latvian vessels continued to be very high with a detention rate of 14.6% for 1999 (EU average: 3.6%), compared to 14.7% in 1998. Moreover, in its capacity of Port State, during 1999, Latvia only detained 6 vessels out of 396 inspected ships. As of June 2000, Latvia now only cooperates with classification societies that are recognised by the EC in the area of Flag State Control.

Overall assessment

The alignment of Latvian legislation in the transport sector with the *acquis* has progressed significantly in some areas.

For horizontal issues, with regard to transport infrastructure, substantial work on reconstruction and modernisation is needed to ensure the completion of the priority road corridors on Latvian territory.

In the area of land transport, Latvia has made considerable progress in aligning with the *acquis* on road transport, but some further work will be necessary including on market access and pricing, fiscal harmonisation, technology, safety and environment, and social legislation. For the transportation of dangerous goods, legislation is in force but is confronted with implementation difficulties. It is, for example, unclear where the safety advisers will be appointed and the type of training they should receive. Furthermore, administrative capacity needs to be further strengthened, also as regards the regulatory work by the Ministry of Transport. It should be noted that Latvia does not yet comply with the EC weight limits for trucks, as it provides both for lower axle weight limits and lower total weight limits compared to those in the EC. The railways sector is already largely in line with the *acquis*, and only a few issues remain to be addressed, including the transport of dangerous goods by rail. Concerning inland waterways, Latvia, as a state with a non-connected network, will, upon accession, be under the obligation to transpose all inland waterway directives, with the option to exempt – after consulting the

Commission – its carriers, boatmasters or vessels from the application of these requirements.

Latvia has made considerable progress in air transport in the last years and efforts to achieve market liberalisation in this field have been noteworthy. As to maritime transport, while some efforts have been made during the last year, these need to continue in order to ensure a satisfactory degree of compliance with EC requirements, especially as concerns maritime safety.

The administrative structures needed for the implementation of the *acquis* have been established. The Ministry of Transport is the central institution and comprises departments for road, rail, aviation, maritime and passenger transport respectively. Several specialised bodies for the individual sectors exist under the supervision of the Ministry of Transport, such as the Road administration, the Railway administration, the Civil Aviation administration and others.

In some areas, significant efforts will still be required to ensure the effective enforcement of the *acquis* provisions. Concerning road-side checks and the control of social rules in road transport as well as checking transport authorisations at border check points, an increase in the number of inspectors and an upgrading of the available equipment seems necessary. Following the establishment of the new investigation authority for civil aviation accidents, some staff reinforcement for the air transport administration might be necessary. In the area of maritime transport, both Flag State and Port State control need further strengthening. Latvia needs to establish the necessary capacity within its maritime administration in order to further align with the *acquis* and to reverse the adverse trend regarding the still high detention rate of its own fleet. Additionally, Latvia needs to improve its performance in Port State Control. It will be important that a sufficient number of trained inspectors is available.

Chapter 10: Taxation

Since the last regular report, Latvia has made some progress in the field of both indirect as well as direct taxation. Progress was also made in developing the administrative capacity in the field of tax collection.

Regarding **indirect taxation**, since the 1999 regular report, some progress was achieved in the field of **VAT** with the adoption of amendments to the Law on VAT cancelling a provision which allowed budget institutions not to register for VAT purposes if they carry out taxable transactions. Latvia has therefore started to address the 1999 Accession Partnership short-term priorities in this area. However several exemptions remain in place.

As regards the **excise** field, progress was achieved in adopting the law on excise tax on beer in November 1999 as well as regulations concerning alcoholic beverages and tobacco. Latvia has now partly fulfilled the 1999 Accession Partnership priorities in this field.

Some progress has been reported concerning the situation on **direct taxation**. Latvia has adopted regulations and methodological guidelines which aim at improving tax collection through tax auditing and controls during the last year. No visible progress was reported

with a view to the application of the Code of Conduct for business administration which was one of the short-term priorities under the 1999 Accession Partnership in this area.

Latvia has undertaken a number of encouraging steps to improve the **administrative capacity** for tax collection and thus has taken clear actions in order to fulfil the 1999 Accession Partnership priorities in this field. A comprehensive modernisation programme for the State Revenue Service (SRS), an independent legal body under the supervision of the Ministry of Finance, for the period 1998 – 2002 is being implemented. The structure of the SRS has been reorganised according to functional principles. During the last year, the Excise Goods Department was reorganised and integrated into the SRS and an Internal Audit Division was established which started its operation according to adopted internal audit strategic plans. Since the last regular report, an Internal Control Division, responsible for all tax administration, has started operation within the frame of the National Tax Board. In addition, an appeal division has been established to administer disputes and complaints on all tax decision. Regarding computerisation, a single register of legal persons between SRS and the register of enterprises is being established in order to avoid double registration. Co-operation between the regional offices and SRS was improved through the implementation of a first stage tax recording system in all SRS regional offices and all offices are interconnected via the national SRS network.

Overall assessment

Overall, Latvia has made steady progress in aligning its legislation with the *acquis*, and important steps have been undertaken to improve the administrative capacity, which, nevertheless still requires important further strengthening.

Since the comprehensive tax legislation reforms initiated in 1995, Latvian law has been amended several times to eliminate all remaining discrepancies with the *acquis*. The present VAT law is generally in line with the EC principles, but the remaining differences need to be addressed. In particular, the list of VAT exemptions is still too broad.

As regards excise tax, reforms started in 1997 and are continuing in order to reach full alignment with the *acquis*. While progress was achieved concerning excise tax on beer, further alignment is needed with respect to tobacco and tobacco products as well as certain fuels.

Regarding direct taxation, Latvia needs to ensure the application of the Code of Conduct for business taxation in order to fulfil the 1999 Accession Partnership priority in this area.

Despite the positive initiatives taken recently, Latvia still faces a serious capacity problem in the tax administration. Increased efforts are necessary to address tax evasion and cases of corruption more effectively (*see B.1. - Political Criteria*). Until now, the reform of the tax administration has been rather slow, but recent developments regarding internal reorganisation, restructuring and improved co-ordination between policy making and implementation as well as strengthening of human resources are good steps in the right direction. They need to be completed and speeded up in order to guarantee an adequate process with a view to the full implementation of the Community tax system.

Chapter 11: Economic and monetary union

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

Since the last regular report, no new legislation has been adopted.

Overall assessment

Latvia will participate in EMU upon accession with the status of a country with a derogation as per Article 122 of the EC Treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Overall, Latvia has adopted substantial parts of the EMU *acquis*. Latvian legislation is largely in line with the *acquis*. Its legislation is in line with the *acquis* requirements concerning the prohibition of **direct public sector financing by the central bank** and of **privileged access of the public sector to financial institutions**.

The basic provisions of the Law of the Bank of Latvia largely comply with the requirements of the Treaty, and the Law ensures the **independence of the Bank of Latvia**. The Act on the Bank of Latvia defines price stability as the primary objective of the Bank.

The applied definitions of general government debt and deficits still need to be reconciled with EC requirements. At present, the accounting procedure in respect of the fiscal deficit of the budget and public debt does not yet fully comply with EC requirements. In this respect, co-ordination between all involved institutions and in particular between the Ministry of Finance and the Central Statistical Bureau should be improved.

Latvia is developing its administrative capacity to be able to implement the EMU *acquis*. This is most important in the area of economic policy co-ordination. For several years, an economic policy aimed at creating the conditions for long-term macroeconomic stability and promoting integration and convergence in the EU has been pursued.

Chapter 12: Statistics

Latvia has made some progress over the past year concerning *acquis* and institution-related alignments.

As **regards statistical infrastructure**, compliance with EC standards has further increased, including statistical confidentiality and methodology. The law on protection of personal data was adopted in March 2000 (*see also Chapters 3, 5 and 24 – Freedom to provide services, Company law, and Justice and Home Affairs*). The Central Statistical

Bureau (CSB) has carried out a systematic assessment of its alignment with the *acquis* and new legislation has been adopted. In addition, an agreement on fighting against fictitious companies was signed with the Latvian Enterprise Register, the National Police and the State Revenue Service. The reform and rationalisation of the CSB, the main statistical body, under supervision of the Ministry of Economy, is still ongoing, in particular concerning the reduction of its regional offices from 28 to 5. There are about 239 officials in the central office and 175 in the regional offices. During the past year most officials have undergone training.

Concerning **demographic and social statistics**, further progress was made in adopting a law on Population Census and its execution. The Census was taken in compliance with the United Nations Organisation and EC standards to ensure internationally comparable data. The preliminary results of the Census have been published in October 2000.

As regards **regional and geographic information**, 5 planning regions are defined at NUTS III levels. The respective GDP estimates were calculated for 1999 on the basis of 1997 data. Demography, unemployment, agriculture, labour force and energy data are available for the REGIO database for 1995-1997.

In the field of **macro-economic** statistics, some progress has been made to bring these statistics more in line with EC methodology. Responsibility for Balance of Payments as well as foreign direct investment statistics has been handed over to the Bank of Latvia.

Regarding **business statistics**, progress was made in analysing the economic activities of small enterprises. An innovation pilot survey and labour force and labour cost surveys have been conducted. Statistical methodology was further developed in areas such as statistical business registers, household surveys and surveys of prices of goods, tourism and innovation.

Latvia has begun to address the harmonisation of the significant discrepancies in **external trade statistics**. It has started to introduce the customs declarations registering and processing system ASYCUDA, but the general quality of customs statistics remains a serious problem (*see also Chapter 25 – Customs union*). Latvia has made progress in harmonising with the EC requirements and classifications on the customs declaration document.

As regards **agricultural statistics**, an agricultural pilot census has been conducted in order to prepare for the envisaged agricultural census in 2001. Progress was achieved in establishing a data basis for a Farm Register which was finalised at the end of 1999 (*see also Chapter 7 - Agriculture*).

Overall assessment

Overall, Latvia has made some progress in statistics. The planned strategies on the structural reforms as well as censuses and surveys planned should help to further improve this. However, in a number of areas and in particular trade, macro-economic, real estate and regional statistics, much more work is needed to improve methodology, quality and coverage of data in order to comply with the *acquis*.

While progress has been made regarding product classification and industry statistics, more work is needed on improving the business register, structural business statistics and tourism, where progress is mainly hampered by the lack of financial resources.

Regarding the administrative situation, and despite further inter-institutional co-operation envisaged with a view to forthcoming surveys, a clear positioning of the CSB within the administration has still to take place and its independence should be strengthened. A major point of concern remains the budgetary situation of the CSB, the institutional set-up as well as the still insufficient level of inter-institutional co-operation where however some progress was achieved. More emphasis has to be put on prioritisation, training of staff and allocation of adequate resources in order to carry out the statistical surveys which are of key importance to the European Integration process.

Chapter 13: Social policy and employment

Since the last regular report, some progress in aligning with the *acquis*, mainly in the areas of health and safety and public health, has been made. The main efforts to upgrade the administrative capacity in this area included the establishment of a European Integration Unit in the Ministry of Welfare, changes in the organisational structure of the National Tri-partite Council, and the setting-up of a Training Centre to prepare for the European Social Fund.

In the area of **Labour Law**, no new legislation has been adopted. The adoption of the new Labour Code is a short-term priority of the Accession Partnership.

Concerning **equality of treatment for women and men**, progress has been made with regard to social security. Amendments to the Law on State pensions and to the Law on State Social Insurance of November 1999 foresee the equalisation of the respective pension ages for women and men at 62 in the future, as well as equal conditions for early retirement. In February 2000, a first court case concerning equal pay was brought by a female employee, whose requests were satisfied. The employer, however, successfully appealed against the decision and the case was taken to the Supreme Court (*see also B.I. – Political Criteria*). A comprehensive analysis of all legislation from a gender perspective was also started with a view to devising a national gender strategy during the year 2000.

With regard to **health and safety**, further alignment was achieved with the transposition of the *acquis* provisions concerning manual handling of loads, work equipment and personal protective equipment. Previously adopted legislation on risks related to exposure to asbestos came into force in January 2000. To improve coordination between the different institutions involved (Ministry of Welfare, State Labour Inspectorate, Environmental Inspectorate and Maritime Inspectorate), regular meetings have been introduced. For the employees of the State Labour Inspectorate, training courses were held both at national and regional level, and the equipment of the Inspectorates was upgraded.

In the field of **public health**, amendments to the relevant Latvian legislation of October 1999 brought it in line with the *acquis* requirements on the maximum tar yield of cigarettes and on labelling of tobacco products. Reforms of the health care system are underway, focusing on institutional changes, improvements to the financial flows, increasing the quality of health care services, and establishing the concept of family

medicine. Latvian health indicators continued to be low compared to those in the EU. An informal inter-ministerial commission on Public Health was created at the end of 1999 to improve coordination between the various institutions involved in the public health area and has started to work on a strategy for the sector.

A new organisation structure for the National Tripartite Co-operation Council was approved in November 1999, foreseeing the establishment of sub-councils for vocational education and employment, labour affairs, and social insurance. The support of social partners' capacity-building efforts in developing and implementing the social *acquis*, notably through bipartite **social dialogue** is a short-term priority of the Accession Partnership, but no visible progress has been achieved in developing bipartism during the last year, especially at sectoral level, but also within enterprises. The Cabinet of Ministers approved a White paper on Mechanisms of Labour Dispute Settlement in January 2000 with a view to preparing the necessary legislation.

Concerning **employment**, the magnitude of underemployment and hidden unemployment is such that the overall unemployment rate appears to be as high as 14.5% (ILO figure for 1999), with large divergences between the different regions of the country. A high proportion of job-seekers is made up by the long-term unemployed and the young. A short-term priority of the Accession Partnership is to complete the national employment strategy with a view to later participation in the European Employment strategy. In line with the provisions of the Accession Partnership, Latvia is in the process of carrying out an employment policy review (jointly with the Commission), which is to identify challenges and progress in adapting its labour market and employment systems to transitional adjustment. In February 2000, the Cabinet of Ministers adopted the National Employment Plan for the year 2000. Programmes for special groups, such as for the disabled and long-term unemployed, continued to be carried out. Based on the National Employment Plan, the procedure for the Joint Employment Review was launched in July 2000. The Latvian State Employment Service was transformed into a non-profit joint stock organisation in 1999 to improve its financing system. Measures to improve the information flow between the different branch offices were introduced.

Concerning the necessary preparations for future participation in the **European Social Fund** (ESF), a National Training Centre has been set up in co-operation with the School for Public Administration, and training of staff has begun. A European Integration Unit (3 employees) and an internal audit unit (6 employees) to supervise and audit internal control systems for state and EC funded programmes and projects were created in the Ministry of Welfare in 2000.

Regarding **social protection**, amendments to the Law on insurance against unemployment were passed in January 2000. In February 2000, the Cabinet of Ministers approved a Concept Paper with a view to improving existing legislation in terms of guaranteeing a unitarily applied minimum income level. The reform of the pension system continued, and in February 2000, a Law on state funded pension was adopted, which will introduce a second tier pension scheme, thereby completing the reform (the first and third tier had already been introduced earlier).

Overall assessment

Latvia's legislation in the area of social policy and employment is at present only partially in line with the *acquis*. It is foreseen that the majority of outstanding provisions

will be transposed with the new Labour Code and the new Law on Labour Protection, both of which are pending in Parliament, as well as other individual pieces of legislation.

Administrative capacity will require significant attention in order to be able to effectively implement the *acquis*. The short-term priorities of the 1999 Accession Partnership have not all been addressed yet.

While legislation in the area of public health is already broadly in line with the *acquis*, the majority of the *acquis* requirements in the area of labour law and equality of treatment for women and men have yet to be transposed. As to health and safety, the framework directive, as well as several other provisions, still need to be adopted.

While tripartite social dialogue is fairly well established in Latvia, bipartism is still underdeveloped and needs to be strengthened significantly. The administrative capacity for social dialogue should be reinforced to better motivate and follow autonomous social dialogue, for instance through the encouragement of appropriate structures at sectoral level, and through regular registration, analysis and monitoring of collective agreements and their contents.

The main preparatory activities in the coming years in order to prepare for participation in the European Social Fund will have to include the definition of competencies and strategic priorities, the improvement of staff qualification and specialisation through training, and the development of monitoring and evaluation structures for ESF funds management.

The key institutions in the context of implementation and enforcement of *the labour law acquis* are the Ministry of Welfare, the State Labour Inspectorate and its regional offices, the civil courts, the trade unions and employers' organisations. For the *health and safety acquis*, the Sanitary Inspectorate for hygiene issues, the Environmental Inspectorate, and the Maritime Inspectorate are equally involved. Key institutions in the *public health* area are the Department of Public Health within the Ministry of Welfare, the Latvian Certification Centre, the Consumer Rights Protection Centre, the National Health promotion centre and various specialised centres as well as several other ministries. Given the large number of actors involved, the creation of the inter-ministerial commission for public health at the end of last year is a welcome development. In the area of *employment policy*, the Ministry of the Economy and the State Employment Service under the supervision of the Ministry of Welfare are also involved.

Latvia is still confronted with significant parts of the population – both unemployed and employed – living under subsistence levels. Labour market and social policy, through appropriate institutions, will have to address this issue and guide a largely well-educated Latvian labour force through employment, education and vocational training and benefit reforms. Attention is to be paid to the fact that such policies should be inclusive as regards all groups in Latvian society.

While some measures have already been taken to strengthen the existing institutions and to train their staff, significant further efforts will be necessary in order to develop the necessary capacity to effectively enforce legislation in the social field. In particular, further steps should be taken to strengthen the Labour Inspectorate. Given the large number of actors and their varying reporting lines to the Government, it will be important to ensure adequate co-ordination and co-operation. Once the relevant new legislation is in

force, the Guarantee Fund for Employees' Claims will have to be set up. The ability to participate in the European Social Fund upon accession also has to be developed.

Legislation transposing the EC Directive based on Art. 13 of the Treaty relative to discrimination on the grounds of race or ethnic origin will have to be introduced and implemented.

Chapter 14: Energy

Since the last regular report, Latvia has continued the process of aligning with the *acquis*, and relevant legislation was adopted in particular in the areas of electricity, oil, and energy efficiency. No important changes in the administrative structures were undertaken during the last year.

In November 1999, the Government decided upon a global policy for the energy sector, covering areas such as electricity and heating and foreseeing a diversification of energy sources, as well as proposing an action plan to contribute to opening up the electricity market in accordance with EC internal energy market provisions and to the establishment of a competitive Baltic energy sector. With regard to **security of supply**, the Government adopted a strategy document on the establishment of **oil stocks** in February 2000, and confirmed that energy supply companies would become responsible for the establishment and maintenance of oil stocks.

Concerning **competitiveness and the internal energy market**, Latvia, Estonia and Lithuania decided in February 2000 to create a Common Baltic Electricity Market (CBEM) as well as to strengthen power transmission links between the three countries. In Latvia, steps to prepare the restructuring and privatisation of the state-owned energy utility, Latvenergo, were taken. In May 2000, the Latvian and Estonian Governments signed a co-operation agreement between Latvenergo and Eesti Energia. The content of a possible co-operation is under negotiation. However, the Latvian Parliament adopted amendments to the Energy Law thereafter in August 2000, stipulating that Latvenergo would have to be restructured before any changes in ownership could take place. Subsequently, the Ministry of Economy took over responsibility for the company from the Latvian Privatisation Agency.

The Energy Regulation Council made further steps towards *competitive* conditions, by accepting in October 1999 a methodology for tariff calculations for transmission and distribution system networks. In December 1999, tariffs for electricity were approved according to the new method. In October 2000, the Law on Public Service Regulators was adopted, which foresees the establishment of a regulatory authority covering *inter alia* the area of energy.

In the *electricity* sector, Latvia further aligned its legislation with the *acquis* with the adoption of Government regulations relating to eligible consumers in September and December 1999. The Energy Regulation Council issued guidelines regulating access of producers and eligible consumers to electricity networks in May 2000.

No important developments have taken place in the areas of *gas and solid fuels* during the last year, nor for *electricity and gas transit*.

As concerns the *oil* sector, Latvia partially aligned with the *acquis* requirements on hydrocarbons licensing in February 2000 with the adoption of a number of regulations.

In the area of **energy efficiency**, the Government adopted a regulation concerning household refrigerators and freezers in March 2000.

As regards **nuclear energy**, in Latvia, there are no nuclear power stations. There is one pool-type research reactor in Salaspils, which was closed in June 1998.

In October 1999, the Government adopted a decommissioning strategy for the Salaspils reactor, setting 2008 as the target date for the full dismantling and assessing the cost at € 19.3 million (LVL 12 million). To prepare for the signature of the Joint Convention on the Safety of Spent Fuel Management, the Government adopted a decree in February 2000. Funds have been earmarked in the national budget for the year 2000 to set up a Radiation Safety Centre (*see chapter 22 – Environment*).

Overall assessment

In the area of energy, Latvia's legislation is partially in line with the *acquis*, with varying degrees of advancement in the individual sectors. For key aspects of the *acquis*, such as oil stocks and the internal energy market, Latvia should step up its efforts.

As concerns oil stocks, Latvian legislation, as well as the available stock, are not yet in line with the *acquis*. Latvia considers that it will need a period of 10 to 25 years to build up the required oil stocks equal to 90 days' consumption. For crisis management, an Emergency Situation Committee exists, which has the powers to create a Crisis Centre for managing an energy crisis, as specified in the Latvian Energy Law.

In preparation for the internal energy market, Latvia needs to make basic choices for the full implementation of the electricity and gas directives. As a first step towards market integration, Latvia co-operates with Estonia and Lithuania towards a Common Baltic Electricity Market, which is to be welcomed. As concerns gas, Latvia still needs to align with the *acquis*. The State retains a 37% share-holding in Latvijas Gaze, the natural gas company, and contractual obligations of the State to foreign investors provide for a 20-year monopoly in the gas sector in Latvia. In order to comply with EC requirements, this monopoly will have to be reviewed. No special legislation is foreseen to regulate the coal market. Latvia's legislation has not yet been aligned with the *acquis* on electricity and gas transit, nor on transparency. Current legislation in the oil sector needs to be amended further to comply with the EC reporting requirements for products and prices. Legislation on hydrocarbons is in line with the *acquis* since February 2000.

In the area of energy efficiency, the transposition of the *acquis* has begun but is not yet completed. Efforts to improve energy efficiency and promote renewable energy sources should be increased.

As to nuclear energy, further alignment with the *acquis* will also be necessary. For the decommissioning of the Salaspils research reactor, fuel, and both low-level and high-level waste management need to be undertaken. Due attention should be given to preparing the implementation of EURATOM safeguards. The new Radiation Safety Centre, once set up, will be responsible for the implementation.

The necessary institutional set-up has been created to ensure administration and regulation of the sector, but further strengthening as well as independence will be required to meet all EC requirements. The Ministry of the Economy and its Energy Department are responsible for the sector's development strategy and policy. Licence awards for energy sector operators are undertaken, and tariff setting is monitored by the Energy Regulation Council, which is independent of the Ministry. In the planned reform of the regulatory regime, it will be important to ensure that sufficient resources are allocated to the regulatory body, and that existing expertise is not lost in the transfer.

Enforcement of energy labelling measures will be undertaken by the Consumer Rights Protection Centre. Energy saving measures regarding energy saving in buildings fall under the responsibility of the Ministry of Environment and Regional Development.

Specific energy efficiency programmes are being carried out by the Energy Department of the Latvian Development Agency.

Following the adoption of legislation on hydrocarbons in February 2000, a State supervisory body for Petroleum Exploration and Production that will guarantee full implementation of the legislation now needs to be established.

Chapter 15: Industrial policy¹³

Since the 1999 regular report, the Government has mainly concentrated its efforts on foreign investment promotion. Less has been achieved as concerns the privatisation of the remaining large companies and the restructuring of enterprises.

The preparation of a long-term **industrial strategy** advanced during the reference period with the drawing-up of an industrial policy concept paper in December 1999. This document served as a basis for a wide consultation between governmental institutions and representatives of the industry. However, its adoption by the Government, which was initially scheduled for end 1999, is still pending.

Since last year Government policy has mainly focused on *investment promotion*. The 1999 Accession Partnership included taking measures to stimulate domestic and inward investment, in particular through simplification of legal and administrative procedures, as a short-term priority. The most significant measures during the last year continued the work initiated in 1998 on the removal of barriers to foreign investment. Attention has focused on the main issues of concern for foreign investors, i.e. the availability of a qualified work force, access to long-term finance, the fight against corruption, and the improvement of border crossing and tax appeal procedures. A Steering Committee composed of senior Government officials was set up at the end of 1999 to find solutions to these issues with members of the Foreign Investors' Council. Consultations led to the adoption by the Government in February 2000 of a second Action Plan, which complements the Action Plan to Improve the Business Environment approved in May 1999. According to a June 2000 report prepared by the Latvian Development Agency, main achievements so far concern taxation policy. One difficulty identified in the course of implementation was the lack of a mechanism to ensure uniform application of regulations at local level. The Development Agency was also given the responsibility to

¹³ Developments in Industrial policy should be seen in relation to developments in the context of SME policy (see chapter 16 – *Small and medium-sized enterprises*).

assess the overall impact of the Government's policy, and results of the first annual survey on business environment in Latvia were presented in February 2000.

Another significant step was the approval by the Cabinet of Ministers in March 2000 of a concept paper "On Enhancement of Investment Projects Significant for the National Economy of Latvia". It identifies vocational training, business infrastructure, and incentives in support of hi-tech sectors as essential factors to further attract Foreign Direct Investments and increase competitiveness. The process of adopting the secondary legislation that is required before initiating the implementation of the projects has started.

Foreign investment in most manufacturing sectors continued to increase in most manufacturing sectors in 1999, despite the after-effects of the Russian crisis on the Latvian economy and an overall relative stagnation of Foreign Direct Investment. This would suggest that the Government efforts are bearing fruit.

A cluster approach to business development is progressively being taken in such sectors as wood and metal processing.

Since last year, **privatisation and restructuring** have made further, but slow progress. The 1999 Accession Partnership included completing privatisation of the remaining large companies as a short-term priority. The privatisation process is close to completion in the industrial sector (the private sector accounted for 81.5% of industrial output in 1999 against 75% in 1998). In large companies there is currently a tendency to consolidate corporate ownership to overcome the fragmented ownership structure resulting from the privatisation process. In the last twelve months the Government continued to focus its attention on the privatisation of the four remaining large enterprises in utilities and infrastructure, which should have an impact on industrial restructuring. However, the process has advanced slower than anticipated.

The 1999 Accession Partnership defined the promotion of competitiveness through market-based enterprise restructuring as a short-term priority. So far, privatisation and Foreign Direct Investment promotion have not led to the expected in-depth restructuring. Progress in restructuring the manufacturing sector remains unbalanced and depends on the branches. Sectors such as wood and metal processing continue their development, while food processing and chemicals lag behind significantly.

It should be noted that an important element of any industrial policy is the control of State aid and that the compatibility of support schemes with EC rules, including the restructuring provisions of the ECSC Treaty, will have to be examined (*see chapter 6 – Competition policy*).

Overall assessment

Overall, Latvia's policy towards industry is by and large in line with the principles of EC industrial policy, i.e. market-based, stable and predictable. The current industrial policy mainly consists of export and investment promotion. However, the structure of exports is still very much oriented towards low value added segments and too little attention is paid to building on Foreign Direct Investments through sub-contracting activities. The lack of financing hinders the implementation of effective business support mechanisms.

A main challenge for the country will be to strengthen its competitiveness with a view to integrating its enterprise sector into the European Union. The Government now needs to

focus on implementing a future-oriented strategy based on an in-depth analysis of competitive advantages and market failures. Measures such as further developing public-private partnerships, re-balancing the split of public investment between Riga and the regions, as well as pro-active steps to attract new investors, both foreign and domestic, should be envisaged. Innovation has to be fostered and developed in parallel with clear strategies in the fields of employment, education, research and science. Activities aimed at improving the business environment should be further sustained in 2001.

The central body responsible for the formulation and co-ordination of industrial policy is the Ministry of the Economy. The line ministries that are responsible for managing specific industrial branches take part in the policy-making process. A wide range of agencies and governmental bodies are involved in the implementation process. The main ones are the Latvian Privatisation Agency, the Latvian Development Agency, the Competition Council, the Latvian Standards Organisation, the Regional Development Council, and the Latvian Technological Centre. The Ministry of the Economy has also set up a structure for improving consultation with industry in the form of 19 sectoral Expert Councils.

While the necessary administrative bodies have been established, the administrative structure in this area is too fragmented. Due to insufficient resources, the Ministry of the Economy externalises to a great extent its core functions (policy-making) to agencies. As a result, it faces difficulties to play the role of a driver of a long-term industrial policy as well as that of a strong co-ordinator of the various measures that have a bearing on industrial development.

Chapter 16: Small and medium-sized enterprises¹⁴

Since the last regular report, Latvia has started to review its current National Programme for the Development of Small and Medium-size Enterprises (SMEs), to reform the state support system for business promotion including in the area of access to finance, and to further improve the business environment.

SMEs employ about 65% of the active population, and produce about half of Latvia's GDP.

As of yet, measures in support to SMEs have not had a significant impact on SME development. Several initiatives undertaken recently are, however, a positive sign of the Government's willingness to address shortcomings of the current **SME strategy and implementing policies** and to increase its support to SMEs.

Firstly, the Latvian Government has launched an evaluation of the activities under the SME Development National Programme 1997-2001, since it considers that the measures outlined in this Programme no longer correspond to the needs of the SME sector. A survey is being conducted to assess the impact of the various activities, and to identify successful actions and areas for improvement.

¹⁴ Developments concerning SME policy should be seen in relation to developments in the context of industrial policy (see Chapter 15 - Industrial policy).

Secondly, since the 1999 regular report, efforts have been made to reform the state support system to entrepreneurship, as well as to improve the access of SMEs to finance. In January 2000, the Cabinet adopted a decision on the co-ordination and operation of business support funds. So far, the impact of this decision seems rather limited. Access to finance remains one of the most important obstacles to the development of SMEs. The main progress achieved last year was the allocation of €5.2 million (LVL 3.2 million) under the 2000 budget for the implementation of loan schemes for start-ups and SMEs through the Latvian Mortgage and Land Bank.

In March, the Cabinet of Ministers approved a concept paper defining priorities for investment projects. Priorities include vocational training, business support infrastructure, and incentives for developing hi-tech sectors. Implementation has not yet started.

Progress in simplifying the **business environment** has continued. Most efforts have focused on removing regulatory and administrative barriers to foreign investment. However, further efforts are still required to simplify the operating environment in a way that would meet the needs of local small business. The adoption of a new Commercial Code in April (*see chapter 5 - Company law*) is a positive step.

No progress have been made over the last year in relation to the **SME definition** applied by Latvia, which is not yet fully in line with recommendations of the European Commission.

Overall assessment

Latvia's policy towards SMEs follows the approach promoted at EC level. However, lack of funding and insufficient information for SMEs hinder the effective implementation of policy. The current policy rightly puts emphasis on the development of business support services, the improvement of the business environment and better access of SMEs to finance. It fails, however, to address the need to promote the development of management skills that are essential for small business to survive. The implementation of appropriate support policies in education and training should be a key element in the process of strengthening the national SME strategy. In order to be in line with the recommendation on the definition of SMEs, the legislation pertaining to SMEs should be amended to include the notions of the independence criterion and of micro-enterprises.

The central body responsible for the formulation and co-ordination of enterprise and SME policy is the Ministry of the Economy. A wide range of agencies and governmental bodies are involved in the implementation process, such as the Latvian Development Agency, the Latvian Guarantee Agency, the Regional Development Council, the Business Advisory Service Centres, and the Business Innovation Centres. The Government is envisaging options to reform the Guarantee Agency, which is currently under the management of the Ministry of the Economy. In addition, a number of funds have been established over the last few years.

While the basic implementation bodies both at national and regional level have already been established, significant improvements in their functioning will still be necessary in order to prepare Latvia's SME sector for integration into the European Union. The administrative structure for this sector is too fragmented and the future of most institutions and funds is highly uncertain due to insufficient levels of funding. The

operation of the funds for SME development could be improved if the responsibility for their management were handed to the financial sector, with the participation of line ministries limited to the provision of advice and assistance in terms of criteria for utilisation. The business support infrastructure needs further strengthening. This should be made on the basis of an evaluation of the existing services to enterprises as well as a gap analysis and implemented through the National Development Plan.

Chapter 17: Science and research

Since the last regular report, Latvia's efforts in this area focused mainly on the implementation of the Fifth Framework Programme. A decision was taken to establish two scientific research centres, namely the Centre of Material Science and the Centre of Wood Science and Technologies.

Latvia is fully associated to the **Fifth Framework Programme** since August 1999, as well as the Euratom Framework Programme. The relevant infrastructure for assisting the research community at national and local level has been established under the Ministry of Education and Science, notably a National Contact Point (NCP) system (with a permanent staff of 8 persons) to disseminate information on the programme and to assist researchers in the preparation of proposals. Representatives to all programme committees have been nominated.

Latvia also participates in the EC programme for co-operation in the field of scientific and technological research (COST) and, since 2000, in the EUREKA programme.

Overall assessment

Latvia's association to the Framework Programmes has been relatively successful; however, the management capacity of the existing structures for association to these programmes should be further strengthened.

For the further development of the sector, it is essential to have an increase in the gross domestic expenditure in research and development as percentage of GDP, which is relatively low (0.22% in 1999).

Through co-operation between all involved institutions, the links between research and development policy and industrial and SME policy should be strengthened in order to devise activities to encourage research relevant for industrial development. Links between research institutes and industry and SMEs should be promoted (*see chapters 15 and 16 on Industrial policy and SMEs*).

Chapter 18: Education and training

Since the last regular report, Latvia has concentrated on the implementation of previously adopted legislation.

Latvia continued to participate in the **Community Programmes** (*see part A – Introduction*). In addition, an Association Council decision was adopted to allow participation in the second phase of the Socrates and Leonardo da Vinci programmes

(2000-2006). Preparations have also been made for participation, as of 2000, in the new Youth programme, which includes European Voluntary Service activities.

Given that Latvia had already transposed the **Directive on Education of Children of Migrant Workers**, no further legislative developments took place.

Non-discrimination towards EU citizens in the field of education had equally already been ensured before the reference period.

Latvia has started **reforms in the fields of education and training** during the last year based on previously adopted legislation, including the Law on Education of 1998 (*see also B.1 - Political Criteria*), and the Law on Vocational Education of 1999. The development of national standards has begun. For vocational training at regional level, two pilot projects have been set up. Work on a new concept for Higher Education was completed by the Ministry of Education in June 2000. With a view to enhancing the mobility of students and lecturers between the Baltic States, an agreement on recognition within the Baltic Higher Education space between Latvia, Estonia and Lithuania was signed in February 2000.

Overall assessment

Latvian legislation is already in line with the necessary provisions of the *acquis*, and efforts should now concentrate on strengthening the institutions involved and on continuing the reform of the education system in Latvia.

The requirements of the Directive on Education of Children of Migrant Workers had been transposed by the Law on Education, and EU citizens temporarily resident in Latvia and their children thereby have access to education. Regarding non-discrimination towards EU citizens in the field of education, the legislative framework contains guarantees for foreign students in Latvia. For EU citizens and their children, fees for education are the same as for citizens and permanent residents of Latvia. In accordance with the provisions of the *acquis*, the Law on Vocational Education contains provisions on qualifications and on social dialogue.

Participation in the relevant Community programmes is satisfactory and the established national agencies are functioning.

The administrative structures in charge of education and training issues are the Ministry of Education and Science, the Ministry of Welfare (and the State Employment Service), and the Ministry of the Economy. In addition, various more specialised bodies exist under the supervision of the Ministry of Education and Science, such as the Agency for Vocational Education Development Programmes, the Academic Information Centre and the Centre for Quality Assessment of Higher Education. Co-ordination between the ministries, as well as other relevant actors, needs to be improved and responsibilities clearly defined in order to develop a coherent approach to the development of the education and VET (vocational education and training) systems, that cater to the needs of the labour market.

Chapter 19: Telecommunications and information technologies

Since the last regular report, no new legislation has been adopted in this area and no significant changes in the regulatory regime have taken place.

No concrete results have been reached on the issue of the liberalisation of the **telecommunications markets**. It is to be noted that, according to a Government policy plan as well as the commitments Latvia has made at the WTO, the monopoly in the telecommunications sector will be terminated in 2003 instead of 2013, as originally foreseen. The current monopoly provider, Lattelekom, is 51% state-owned and 49% foreign-owned. A decision to privatise the remaining shares of Lattelekom was taken by the Government in October 1998, and before this can happen, the contractual basis of the monopoly must be renegotiated.

The new Law on Telecommunications, meant to transpose a set of core EC telecommunications directives, still needs to be adopted by Parliament.

As to the current **regulatory** system, this appears not to meet the independence requirement, and only covers parts of the regulatory role. At present, regulatory tasks are carried out by the Department of Communications of the Ministry of Transport and the Telecommunications Tariff Council (TTC). The Communications Department is responsible for quality, licensing, interconnection, certification and standardisation. The role of the TTC is limited to approving tariffs on Lattelekom basic services; in doing so, the TTC does not use tariff setting methodology. Conflicts might arise with the Communications Department if the TTC fails to properly take into consideration the quality requirement. The TTC suffers from being understaffed and under-resourced. Despite these apparent handicaps, tariff rebalancing in Latvia has progressed further and can no longer be seen as an obstacle to liberalisation.

In the meantime, to prepare the implementation of the future regulatory regime, an inter-ministerial working group was set up in January 2000 to elaborate an implementation plan for the public service regulation commission. As a first step to creating the necessary legal basis, in October 2000, the Law on Public Service Regulators was adopted, which foresees the establishment of a regulatory authority covering *inter alia* the areas of telecommunications and postal services.

As far as mobile phones are concerned, the market is shared between two operators, one of whom also runs an analog network. A third GSM license should to be granted as soon as possible to increase the effectiveness of competition, and the licensing of UMTS (Universal Mobile Telecoms System) standards and technology ought to be considered at the same time. Licensing of a third mobile operator is still restricted by Government commitments to respect a delay of 5 years after licensing the second operator (in 1996).

No significant developments are to be reported as regards the liberalisation of **postal markets**. There is as of now no independent postal regulatory body. Tariffs are set by the Government, and the Communications Department of the Ministry of Transport carries out policy making functions and some regulatory activities (licensing).

Overall assessment

Latvian legislation in the area of telecommunications is not yet in line with the *acquis*. Further changes will have to be introduced as concerns public voice telephony and the

liberalisation of the operation of related infrastructure, the separation of regulatory from operational functions, the availability of permission to enter markets, the cost orientation of tariffs, the right to interconnect networks on reasonable terms, the availability of numbering capacity, the availability of leased lines, the provision of universal service, and less regulation for companies that do not have significant market power.

While legislation concerning licensing in the postal sector is almost in line with the *acquis*, other important issues, such as tariffs, quality of service, separation of accounts and the scope of the reserved area still need to be harmonised with EC requirements.

The existing regulatory agencies for the telecommunication and postal sectors do not yet have the full powers required by the *acquis*. In the reform of the regulatory regime, it will be important to ensure that sufficient resources are allocated to the regulatory body, and that existing expertise is not lost in the transfer.

Chapter 20: Culture and audio-visual policy

Since the last regular report, Latvia continued the process of legislative alignment, and some measures were taken to enhance the powers of the regulatory body for the audio-visual sector.

To advance with the alignment with the **audio-visual** *acquis*, the Radio and Television Law was further amended in October 1999. The modified provisions, which entered into force in November 1999, addressed some of the outstanding issues.

In October 2000, Latvia ratified the Protocol to the Council of Europe Convention on Transfrontier Television, to which it is already a party.

Since last year, several measures were taken to enhance the powers of the regulatory body, the *National Radio and Television Council*. Following the entry into force of the Law on Advertising in January 2000, the Council now has the right to directly ban the broadcasting of illegal advertising material. In March 2000, legislation was amended to extend the liability for violations of advertising rules to legal persons (previously, only physical persons could be held responsible). The level of fines imposed by the Council was also raised. The Council took one broadcaster to court for illegal retransmission.

Overall assessment

On the whole, Latvia has made some progress in this area but still needs to complete the process of legislative alignment with the *acquis*.

The amended Radio and Television Law represents progress in Latvia's alignment with the audio-visual *acquis*. However, some further amendments will still be necessary concerning jurisdiction, public access to major events, the promotion of European and independent works and certain advertising provisions. Draft amendments have been submitted to Parliament in October 2000 (*see also B.1 - Political Criteria*).

Though progress was accomplished last year, the powers of the National Radio and Television Council are not yet fully in line with the requirements of the *acquis*, and further improvements to the monitoring and sanctioning system will be necessary. An

upgrading of resources will also be necessary in order to ensure an effective enforcement of the EC requirements.

Latvia has demonstrated effective administrative capacity for implementing the *acquis* in the area of culture, also through its participation in the Raphael programme.

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

Since the last regular report, progress in the area of regional policy and co-ordination of structural instruments has been limited.

Regarding **territorial organisation**, the Government decided in April 2000 to establish five planning regions (Latgale, Kurzeme, Zemgale, Vidzeme and Riga) by January 2001, which correspond to the NUTS III level. This classification has not yet been presented to the European Commission. The main functions of the planning regions would be regional development planning, project implementation and monitoring. In each planning region, decisions would be taken by a Regional Development Council, which would include representatives of the participating districts and/or city councils. The voluntary amalgamation of the high number of municipalities has begun.

As concerns the **legislative framework** for regional development, no legislation was adopted.

In preparation for **programming** of regional development, a first version of Latvia's National Development Plan was approved in October 1999. The revision of the National Development Plan started in January 2000 under the leadership of the Special Tasks Minister for Cooperation with International Financial Institutions, and in April 2000, a National Development Plan Steering Group was formed to monitor and manage the preparation of a revised Plan in close co-operation with regions and partner institutions. Latvia has also elaborated programming documents for ISPA and SAPARD. Details are included in the section on Community assistance.

With regard to **administrative co-ordination**, a Regional Policy Working Group was established in June 2000 to prepare a conceptual proposal on harmonisation of competencies, institutional framework and legislation. The group is chaired by the Special Tasks Minister for Cooperation with International Financial Institutions. This is a first step towards co-ordination and co-operation between all the national actors involved in regional policy and towards the designation of an entity that would be responsible for EC Structural Funds.

Concerning the financial and budgetary **management** structures, it was decided that international assistance, including EC financial assistance, would be integrated into the national budget. In addition, work has started on introducing the principle of medium- and long-term budget planning in the budgetary process (*see chapter 29 – Financial and budgetary provisions*). As to **statistics** for the implementation of the structural funds, the compilation of regional data has started (*see chapter 12 – Statistics*).

Overall assessment

As Latvia has made limited progress in this area, a number of serious difficulties remain, and efforts need to be continued, both with regard to the legislative framework and as concerns administrative capacity.

The Law on administrative and territorial reform of 1998 established the independent role of regional and local governments. On its basis, the amalgamation of municipalities should continue to create more viable units.

The present framework for regional development consists of a Regional development policy concept of 1996 and a Law on assisted regions of 1997. Legislation with a view to creating the necessary framework for the future participation in EC Structural Funds should be elaborated and adopted as a matter of priority.

Concerning programming progress, the revision of the National Development Plan should lead to the elaboration of a comprehensive national planning tool, which is developed in coherence with other strategic documents. The decision of the Government of March 2000 to use the Plan as a medium-term intersectoral planning document, to determine priorities for the coming years, and to serve as a basis for awarding public investment is a positive step in this direction.

Responsibilities for regional development within the Latvian administration at central level, as well as its different levels, still need to be delimited properly, and an institution at central level responsible for EC Structural Funds should be nominated in order to guide the process. The structures need to be rationalised and strengthened in order to upgrade the level of programming and project approval, monitoring and evaluation of pre-accession instruments and activities preparing for future Structural Funds assistance. The strengthening of regional structures should focus on the establishment of local and regional partnerships, which may contribute to planning and project design within the overall partnership structure to be established with regard to the preparation and implementation of any Structural Funds assistance. To this end, it is of the utmost importance that the necessary structures for co-ordinated programming, management, monitoring, evaluation, financial management and control of Structural Funds assistance are established at the central level, before a stand is taken on whether a further decentralisation is feasible or advisable.

In particular, effective financial management structures in line with the requirements of the Structural Funds regulations need to be put in place. It is important that Latvia establishes procedures for the effective management of payments, as well as a fully operational and transparent financial control and internal audit system in order to be able to properly manage EC funds as well as national resources.

As to statistics, most of the key indicators are available at national level, with some shortcomings in the fields of social indicators, employment statistics and structural business statistics. No regional data are available yet for GDP, social indicators and structural business statistics.

Chapter 22: Environment

Further progress relating to the adoption of legislation in line with the *acquis* has been achieved since last years' regular report, in particular as concerns environmental

information, nature protection, waste management and GMOs. Some measures to strengthen the administrative capacity in the sector have also been taken.

With regard to the **integration of environment into other policies**, over the past year Latvia has started to implement the action programme for sustainable development adopted by all Baltic Sea countries in the framework of 'Agenda 21 for the Baltic Sea region'.

Concerning **horizontal legislation**, amendments to the existing Latvian legislation on Environmental Protection of June 2000 brought it in line with EC requirements on environmental information. Legislation on environmental impact assessment is, except for one requirement, already in line with the *acquis*. The necessary body to implement the directive, the Environmental Impact Assessment Bureau, was set up in 1999 and has gained the experience and capacity to implement the obligations. The Accession Partnership referred to the need to complete the transposition of and enforce the environmental impact assessment directive as a short-term priority, and this priority has partially been met.

The 1999 Accession Partnership also included the need to accelerate the transposition and enforcement of framework legislation (in particular in the fields of waste, air, water and nature) as well as industrial related sectoral legislation concerning integrated pollution prevention and major industrial hazards as a short-term priority.

In the field of **nature protection**, a new law of March 2000 on the protection of species and biotopes brought Latvian legislation closer in line with the EC requirements on Birds and Habitats. A detailed plan has been adopted for the transposition of the remaining obligations, and some training courses with a view to the implementation of the new provisions have been carried out. Several laws on nature reserves and national parks were also adopted in March 2000. In May 2000, the Government adopted a National Programme for Biodiversity. A new department responsible for nature protection was set up in the Ministry of Environment and Regional Development.

As concerns **water quality**, no new legislation was adopted during the last year. Water management projects for 60 towns are underway, with six having been completed so far. In four towns, compliance with EC standards in the preparation of drinking water has been achieved. The Government decided to consider the whole territory of Latvia as a sensitive area in relation to the urban wastewater treatment directive.

In the area of **waste management**, following legislation adopted in January, February and April 2000, Latvia's provisions were brought further in line with the *acquis* on classification of hazardous waste and hazard criteria, landfills for municipal waste and municipal waste incineration. In 1999, a new hazardous waste interim storage plant became operational. The Environmental Impact Assessment process for the establishment of a permanent facility has started.

With regard to **industrial pollution control and risk management**, no new legislation was adopted. Previously adopted legislation for large combustion plants entered into force for new plants in July 2000. This legislation also contains emission limit values for existing plants. The main installations covered by the *acquis* relating to IPPC and Seveso have been identified. Concerning administrative structures, a decision was taken that the Environmental Impact Assessment Bureau would be the central institution in charge of

the sector. Several measures to raise public awareness were undertaken, including the publication of information material and holding information seminars.

In the area of **air quality**, no further legislation was adopted, as Latvia's legislation was already largely in line with the *acquis*. Efforts during the last year concentrated mainly on drafting further amendments to fully complete alignment, notably as concerns fuel standards], and on preparing the implementation of the new provisions.

No legislation in the area of **noise from vehicles and machinery** was adopted during the last year. A working group comprising the ministries of the environment, economy, welfare and transport has been set up to prepare draft legislation.

Concerning **GMOs**, legislation was adopted in October 2000 in order to further align with the *acquis*, and a decision was taken to set up an advisory committee. In the area of **chemicals**, a regulation on the use and marketing of dangerous chemical substances and products was adopted in April 2000. In November 1999, Latvia signed the Montreal Amendment to the Vienna Convention for the protection of the ozone layer. A Chemicals Bureau within the Environmental Information Data Centre was set up in January 2000 in order to gather information for registration purposes and to deal with notifications of new substances (*see chapter 1 – Free Movement of Goods*). The Law on Animal Protection of January 2000 partly transposes *acquis* provisions regarding the protection of animals used for experimental or other scientific purposes.

Concerning **nuclear safety**, no new legislation was adopted in the last year, as the necessary legal framework already existed with few remaining issues to be addressed. In October 1999, the Government adopted a decommissioning strategy for the Salaspils nuclear research reactor (closed in June 1998), setting 2008 as the target date for the full dismantling and assessed the cost at € 19.3 million (LVL 12 million) (*see Chapter 14 – Energy, including nuclear energy*).

The 1999 Accession Partnership foresees the strengthening of the *environmental administration both at national and regional level* as a short-term priority. A decision was taken to reinforce the Environmental Impact Assessment Bureau (also with a view to the additional functions the Bureau will assume in the area of pollution control), to strengthen the regional environmental boards, and to establish a radiation safety centre as a matter of priority. Funds for this purpose have been earmarked in the national budget for 2000. In September 2000, a decision was taken to rationalise the collection and reporting of environmental data. Two existing institutions, the Environment Consultation and Monitoring Centre and the Environmental Data Centre, were merged to create a new body, the Latvian Environment Agency.

Work on **cost** estimates for the different environmental sectors in order to comply with EC environmental standards started last year and have been further refined since then. They are based on investments in different sectors through the Latvian Public Investment Programme, official prognoses for GDP, possible bilateral grants and financial support from the EC pre-accession funds. Latvia plans to reach the necessary level of investments by the year 2014. The cost of public investments are expected to be € 1.2 billion. Financing for environmental protection from the Public Investment Programme has gradually increased over the last years and stood at a total of € 46 million in 1999, representing 0.7% of GDP. The Accession Partnership refers to the implementation of the plan for financing investments (directive-specific), based on estimations of costs of

alignment and realistic sources of public and private finance year-by-year, as a short-term priority, and this priority has started to be addressed.

Overall assessment

Latvian legislation is partially in line with the environmental *acquis*. While Latvia seems well aware of the challenges posed by this sector at the conceptual level - implementation programmes including preliminary cost assessments for all environmental sectors have been prepared – there continue to be important discrepancies between the relative stage of advancement of the individual sectors.

As concerns horizontal legislation, the Latvian legislation on environmental impact assessment is largely in line with the *acquis*, but further amendments will be necessary as concerns transboundary impacts. Latvia has signed an agreement with Estonia on Environmental Impact Assessment, and discussions with Lithuania with a view to an agreement are ongoing. Further work will be required concerning civil protection and reporting requirements. Latvia has ratified the Convention on climate change and signed the Kyoto Protocol.

Alignment is well advanced in the sectors of air quality, GMOs and nuclear safety. For nuclear safety, the main gaps in the existing legislation concern medical exposures and information to the public. In the sectors of water quality (including framework legislation), waste management, industrial pollution control, and risk management, progress has been less forthcoming. In the sectors of noise from vehicles and machinery, chemicals and biocides, work on transposition has only just started. Latvia has acceded to the Vienna Convention for the protection of the ozone layer and its Montreal protocol on ozone depleting substances. The Copenhagen and London amendments have also been ratified. Overall, the pace of transposition should be accelerated in view of Latvia's target to complete the alignment in the whole environmental sector by 2003. In several of these sectors, however, draft legislation has been prepared during the last year and is presently awaiting adoption.

Compared to the Latvian programme on legislative work and investments, plans to strengthen the administrative capacity are less developed and should be accorded priority. The Ministry of Environment Protection and Regional Development is the main competent body. It is responsible for the majority and most important issues of environmental protection but also shares some responsibility with several other ministries such as the Ministry of Welfare, Agriculture, Interior and Transport. The Ministry operates at three levels: the central administration, the state agencies and the enterprises under the responsibility of the Ministry. About 30 bodies are subordinated to the Ministry of Environment and Regional Development with varying levels of independence. The work on the approximation of environmental *acquis* is integrated via inter-ministerial groups with representatives from all involved ministries and other institutions. In terms of controlling and enforcing the environmental legislation, the most important institutions are the eight Regional Environmental Boards together with the State Environmental Inspectorate. Some tasks regarding environmental protection are delegated to local municipalities, the most important being management of non-hazardous waste and organising the water supply and wastewater treatment.

The total number of institutions involved in the implementation and enforcement of environmental legislation is high. Having identified the need to restructure and clarify the

respective responsibilities, some first measures have been taken over the last years. The Ministry of Environment has increased its staff working on EU integration, and new staff has also been allocated to prepare and support project implementation in the waste and water sector. Some new institutions have been established, such as the Environmental Impact Assessment Bureau. While a decision was taken to create a Radiation Centre during 2000, the date for the establishment of the Environmental Protection Agency is uncertain. There still remains significant work to establish an effective structure that can fully apply and enforce the *acquis*.

Chapter 23: Consumers and health protection

Since the last regular report Latvia has made good progress in terms of legal alignment with the *acquis*. Latvia has continued to build up its administrative capacity in this field.

The framework **Consumer Protection** Law of 1999 was further complemented by the Advertising Law, adopted in December 1999 and which entered into force in June 2000, in order to implement the directives on **misleading and comparative advertising**. With a view to ensure implementation of the respective Community Directives, regulations concerning **distance selling, doorstep selling and timesharing** were adopted in September 1999. In addition, a regulation on **package travel** was adopted in April 2000. The Law on Product and Services Safety as well as the Law on Liability for the Deficiencies of Goods and Services were adopted in June 2000. These laws will supplement existing legislation on market surveillance with provisions on general **product safety and product liability**.

Regarding **administrative capacity**, the Consumer Rights Protection Centre, the co-ordinating body responsible for the implementation of Market Surveillance, has continued to establish co-operation agreements in order to carry out inspections in the field of non-food and services. It has now 33 staff employed in the Centre in Riga.

There has been a significant increase in consultations and complaints reaching about 6000 annually, compared to 4000 complaints in 1998. The Centre receives and handles about 600 written complaints per year. In 1999, about 2000 control activities were carried out. In order to improve market surveillance the implementation of standards has been started in the Centre. During 1999, more than 25 staff received training concerning new approach, consumer legislation, complaints and market surveillance activities.

The Latvian Consumer Organisations Association was established in 1999 according to the new Consumer Protection Law. So far, no actions concerning consumer interests have been brought to court.

Overall assessment

With the entry into force of the 1999 law on consumer protection, Latvia's legislation is broadly in line with the *acquis*. Generally, enforcement of the transposed Community directives remains a difficult challenge.

The newly created Consumer Rights Protection Centre has played an increasingly active role in the field of information provision which is underlined by the number of requests dealt with. However, due to financial constraints and limited human resources its actual role in market surveillance, which is also limited to a number of areas, as well as

particularly the execution of inspections, including at regional level, have to be strengthened. The Centre itself needs further staffing and financial resources in order to play its full role in consumer protection (*see chapter 1 – Free movement of goods*).

In addition, consumer and producer awareness need to be enhanced in relation to their respective rights and responsibilities. Consumer Health Institutions need to be upgraded in terms of training and equipment, and legal professions need to familiarise themselves better with product liability related cases.

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

Since the 1999 regular report, progress has been achieved in the field of data protection, visas and police. Considerable efforts were made in the area of border control.

The Law on Personal **Data Protection** was approved in March 2000 (*see chapter 3 - Free movement of services*). The Law provides for the establishment of a State Data Protection Inspection under the supervision of the Ministry of Justice. The Inspection will be operational in January 2001.

As regards **visa policy**, progress was made. In January 2000 a unified visa information registration system, which operates on-line with diplomatic consulates abroad, was introduced. In May 2000 amendments were passed to the Law on Issuing of Visas providing for introduction of airport transit visas as from July 2000. Work on the implementation of issuing of machine-readable visas continued.

In March 2000, and in accordance with the requirements of the Schengen *acquis*, the Latvian Government denounced the interim inter-governmental agreement on simplified local border crossing procedures between Russia and Latvia. The special permits have been replaced by charge-free visas for the local residents and these visas, unlike the special permits, give access to the entire territory. The new regime will take effect six months after notifying the other party. Visas for Belarus were introduced in January 2000. A bilateral agreement on establishing a visa-free regime was signed with Japan (in force) and with Israel in January and May 2000 respectively.

One of the short term priorities of the 1999 Accession Partnership was to upgrade border posts and the “green border” and to improve data and telecommunication infrastructure. Latvia has made some progress in strengthening **border controls** (*see chapter 25 – Customs union*).

In order to increase integrity of the border control, an additional protocol to the agreement between the customs service and the border guards was signed in December 1999 and came into effect in January 2000. The exchange of information between the border guard and the coast guard has been improved as well during the reporting period.

In June 2000, an agreement was signed between the State Border Guards, the Railways department of the Ministry of Transport and the passenger transport company which will allow the Border Guards to receive information about passengers who have crossed the national border by train.

Co-operation with Latvia’s Baltic neighbours is steadily developing. Since May 2000 and according to the co-operation agreement between the police, customs, and border guarding authorities of Finland, Latvia, Lithuania and Estonia on cross-border crime,

joint border control procedures are carried out but only with regard to incoming traffic. The joint border control procedure has been fully introduced in all border control points on the border with Estonia. Since December 1999, there is an electronic data exchange on the common border control points of Latvia and Estonia.

As regards the general border control capacity, Latvia has increased its budget allocation. At the end of 1999 and as a result of the restructuring of the State Border Guard the number of personnel involved in the protection of the Eastern Border is now twice as high as for the borders with Lithuania and Estonia. In 1999, the establishment of the State Eastern Border unified management and guarding system was started. Within the 2000 State investment Programme, surveillance equipment was improved and staffing at the Eastern border was significantly increased. The total number of staff employed by the State Border Guards is 3283 (as compared to 3018 last year).

Computerisation is progressing. Since the beginning of 2000, the Border Guard Electronic Information System is linked to the newly established visa register (under the Department of Citizenship and Migration Affairs), however, the software system used by the border guards is not compatible with the system used by the customs. In addition, an agreement between the Navy and the border guards was signed in June 2000 for access to the Navy's border surveillance system database.

Regarding **migration**, one of the short-term priorities of the 1999 Accession Partnership was to implement migration legislation and procedures to prevent illegal immigration. This priority was partly addressed through the introduction of the transit airport visas and a regulation to simplify the procedure for receiving residence permits on the basis of a work or employment contract as well as the preparation of an immigration law.

Latvia signed a re-admission agreement and an implementation protocol with Austria in June 2000. Less progress has been made in terms of the administrative capacity to implement the re-admission *acquis*, mainly due to lack of financial resources.

Following the entry into force of the **asylum** law in early 1999 some progress was made in terms of the implementation of the asylum legislation which is also a priority under the 1999 Accession Partnership. Work has started to set up a registration database of asylum seekers and refugees and on the creation of a unified translators and interpreters database of the Baltic States. Taking into account the at present low number of asylum seekers (22 persons in 1999 and 2 in 2000), sufficient reception capacity has been established (*see also B.1. - Political Criteria*).

In the field of **police co-operation and fight against organised crime**, one of the short-term priorities of the 1999 Accession Partnership was to upgrade law enforcement bodies and to continue the fight against organised crime, trafficking in women and children and to ensure better co-ordination between law enforcement bodies. Good progress has been made in terms of strengthening the institutional capacity and co-ordination.

In December 1999 the Secretariat of Crime Prevention Council of Latvia was established (with a staff of 8 persons) to ensure effective co-ordination of the Ministry of the Interior, Ministry of Justice, Ministry of Finance, Ministry of Foreign Affairs as well as the General Prosecutor's Office. In November 1999 the Anti-Smuggling Centre was established, involving 25 employees from the State Revenue Service, the State Police, the Security Police, the General Prosecutor Office and the State Border Guard. In the second

half of 1999 the special Division for the Fight against Car Thefts with 80 staff of police officers in the Main Criminal Police Board of Riga City was established.

Co-operation between the institutions fighting against organised crime has been institutionalised. Institutional co-operation agreements were concluded between the State Police and the State Revenue Service (SRS) to provide the police with online access to information stored in the database of the SRS, between the Customs Board and the Drug Enforcement Bureau and between the Financial Police, the Economic Police and the Company Register on Location and Liquidation of Fictitious Companies.

The Agreement between the Governments of Latvia, Estonia and Lithuania on Co-operation in Protection of Witnesses and Victims was signed, and entered into force in June 2000.

In May 2000 a working group for Latvia was established to prepare the agreement with Europol.

As regards administrative capacity, service regulations have been drafted. In addition, an Internal Audit Unit (in total 9 persons), an EU Legislation Harmonisation Division (in total 4 persons) and a Division for the Reconstruction Control of the Eastern Border (in total 11 persons) have been established within the Ministry of the Interior as well as further bodies under its supervision. The first stage of reorganisation of the Criminal Police of Latvia has begun. The turnover of police staff has further decreased since last year. For the first five months of this year, it reached 2%.

Regarding the **fight against fraud and corruption** (*see also B.1. - Political Criteria*), one of the short-term priorities of the 1999 Accession Partnership was to continue the fight against corruption, to implement concrete measures to improve inter-agency co-operation in the area of anti-corruption and to ratify the European Criminal Law Convention on Corruption, as well as to sign the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Some progress has been made in this respect, including Latvia's joining of the Group of States Against Corruption (GRECO) in June 2000, the establishment of a secretariat of the Corruption-Prevention Council in December 1999 (with a staff of 3 persons) and the adoption of a Corruption-Prevention Programme in April 2000 and of a concept paper on the fight against corruption in August 2000, as well as some limited other measures. The implementation of the Law on Prevention of Corruption has advanced, which is also reflected by the increased number of disciplinary cases.

As regards **drug** use, a number of negative trends are being observed and in particular as regards heroine use. Drug mortality has increased as well as drug use by minors. In 1999, 325 persons were brought to justice in connection with drug-related crimes.

Latvia has adopted further regulations to define quantities of narcotic drugs and psychotropic substances in illegal circulation, which are subject to criminal liability. These came into force in January 2000. Latvia has continued its efforts concerning the implementation of its National Drug Control and Drug Abuse Prevention Strategy for the period 1999 – 2003.

The structure of the Drug Enforcement Bureau has been strengthened and now employs 73 staff members. Five regional groups of the Bureau have been established, and the number of officers working on minors and on the fight against organised crime and drugs

in prisons has increased by 35. The national Contact group with Europol's Drug enforcement unit has been established. In co-operation with the Narcology Centre of the Ministry of Welfare, educational campaigns have been launched and co-operation, co-ordination and information exchanges between state (Judicial Training Centre, the Drug Enforcement Bureau, specialists from the Drug Addiction Treatment Centre and specialised prosecutors and judges) and non-governmental organisations have been organised.

In the field of **customs co-operation**, Latvia made some progress during the last year. Co-operation between customs authorities and business was enhanced through a number of Memoranda of Understanding (MOU) with major international transport companies as well as ten MOUs with other national bodies involved in customs matters aiming at improving the fight against smuggling, fraud, corruption and other forms of illegal commercial traffic. To this end, information (guidelines, instructions etc.) were widely circulated, including on a web-site, as well as through enhanced training activities for customs officials.

Furthermore, the computerised risk analysis system (TIMS) is being introduced in all regional customs offices. The problem of corruption is in particular being tackled by improved training and the implementation of the State Revenue System's Code of Ethics. In addition, an Internal Audit Division has been set up to develop and implement measures to decrease the risk of corruption. With a view to this, Latvia has developed unified technological schemes for all customs points which include video-monitoring.

On **judicial co-operation in criminal and civil matters**, no important developments were reported over the past year, but Latvia has already achieved a certain level of alignment.

Overall assessment

During the last few years, Latvia has made some progress to date in the area of justice and home affairs. However, alignment to the *acquis* needs to continue, and important challenges still lie ahead to ensure its enforcement.

The adoption of the law on Personal **Data Protection** has further aligned Latvian legislation with the *acquis* in this field. As regards the envisaged establishment of the State Data Inspection by the end of 2000, the independence of this body needs to be ensured. Latvia needs now to ratify the 1981 Convention of the Council of Europe on the protection of individuals with regard to automatic processing of personal data.

Regarding **visa policy**, Latvia's legislation is broadly in line. Visa requirements have been introduced for all countries according to the *acquis*. Following the legislative amendments, the implementation of the airport transit visa regime now needs to be ensured. A proper transit zone at Riga Airport, in order to cope with the expected larger flows of passengers carrying transit visas in the future, needs to be established.

The on-line connection system for visa applications between all border crossing points and the central database should be completed as well as the issue of machine readable visas. Latvia will still have to develop a Schengen-type visa sticker and to generalise the electronically-supported system for visa issuing to all its diplomatic missions and to introduce the general obligation for personal application of visas.

In the field of **border controls**, the main challenge remains the establishment of an integrated approach to border management, despite the progress achieved concerning the establishment of co-operation agreements and improved data communication between the different bodies responsible for border surveillance. In addition to Customs, the Ministry of Agriculture, the Navy and the Ministry of the Interior, the Immigration and the State Police carry out activities at the border. The establishment of a well-functioning co-operation mechanism in order to ensure efficient practical co-operation on border surveillance remains therefore essential.

The quality of checks at Latvia's border crossing points has improved, but are still hampered by lack of adequate equipment and lack of focus on risk sectors. 15 out of 87 border crossings are equipped with computerised border control systems. Effective co-operation and communication between the various control bodies involved need to be ensured.

Despite the recent improvements concerning co-ordination and surveillance infrastructure at the green border, efforts to improve the basic infrastructure have to be continued. The strengthening of controls at the eastern border is proceeding and infrastructure equipment is being provided. However, further increases in financial resources need to be guaranteed. Co-operation between border guards and coast guards should be further enhanced in order to ensure a harmonised and adequate level of surveillance at the blue border. Checks carried out on transit trains still require further improvements in order to provide adequate level of controls. One of the 1999 Accession Partnership priorities was to upgrade border posts and “green border control” and to improve data and communication infrastructure. This remains a priority.

Training of the 3035 people employed in the border guard remains an important issue. Capacity of the one existing border guard school has to be increased and training of foreign language skills should be strengthened particular with a view to the implementation of the Schengen *acquis*. Common training sessions between the different authorities in charge of managing the borders are still to be organised.

As regards the situation on **migration**, Latvia's legislation is broadly in line with the *acquis*. The provisions on admission and expulsion are close to those required, but remaining shortcomings have to be addressed. As regards the legal situation on admission rules, legal provisions need to be established regarding the application for work permits, changing of categories of temporary residence permits as well as the relaxation of provisions for self-employed persons. Generally, there is still too much bureaucracy regarding foreigners concerning work and residence permits. Legislation on expulsion is also in line with the *acquis* with the exception of the missing legal basis for detentions before expulsions. Expulsion of foreigners is hampered by shortcomings in re-admission agreements and financial constraints. Since 1997 annually about 350 persons were expelled from Latvia.

On re-admission, there are now agreements with Austria, Benelux, Croatia, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Italy, Liechtenstein, Lithuania, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland and Ukraine.

There are two centres for illegal immigrants in Latvia – Olaine and Gaizina Street in Riga. Living conditions for illegal immigrants kept in these places need to be improved.

Although the adoption of the 1998 Law on Asylum Seekers and Refugees in the Republic of Latvia incorporated most of the *acquis* on **asylum**, further legislative amendments will be necessary, especially with regard to the concept of safe third countries (amendments have been drafted) as well as with regard to provisions on temporary protection and humanitarian status. The principle of “non-refoulement”, recognised by the Law of 1998 on Refugee and Asylum Seekers, does not appear in the Law of 1992 on Aliens. Amendments will also be needed with a view to the implementation of the Dublin Convention.

Despite the at present low number of asylum seekers, the independence of the Appeal Council remains a matter of concern. The informal nature of proceedings and the absence of clearly defined rules will have to be addressed. A final judgement in this field is hampered by the lack of experience of the bodies concerned in implementing the legislation also with a view to preparation for accession to the Dublin Convention and its enforcement.

As regards **police co-operation and fight against organised crime**, further steps to complete legal alignment, including with the Europol Convention, have to be taken. In addition, there is a need to clarify the division of responsibilities particularly between the State Police and the Municipal Police.

Although the need for strengthening the administrative capacity in this area is widely recognised, and training levels have increased in the recent year, further improvements are needed to meet the challenges of organised crime and corruption as well as new types of crimes (financial, computer, money laundering). This will, however, require further reform, which is at present still inhibited by the number of institutions active in this field as well as a lack of modern equipment, technology and properly trained personnel.

Work on the completion and connection of all police agencies with the national police database should be continued. Restructuring of a special semi-public police body should be addressed in order to avoid possible conflict of interests. Generally, Latvia should continue to improve the status, working conditions and training of the police force and enhance the respective roles and responsibilities. The Action plan of the Ministry of the Interior is considered to be a good step as it foresees working out legislative amendments for the improvement of status, salaries and social guarantees for police personnel. The capacity to react to emerging issues as well as the recruitment of staff with special skills have to be improved and adequate budgetary means have to be provided.

Regarding the **fight against fraud and corruption** (*see also B.1. - Political Criteria*), some progress has been achieved through institutional strengthening and enhanced co-operation. As concerns the *fight against fraud*, the 1995 Convention on the Protection of the European Communities’ Financial Interests appears to be fully covered by existing legislation which does not differentiate between EC and national funds. Latvia will now have to prepare itself for full co-operation with OLAF upon accession. As regards the *fight against corruption*, the effective implementation of the corruption prevention programme requires a complete overhaul of the police service and other law enforcement bodies. The qualifications of and the co-operation amongst all staff involved in the fight against corruption need to be improved. The Council of Europe Criminal Law Convention on Corruption needs to be ratified, and the necessary amendments to the Criminal Code need to be made.

In the field of **drugs**, drug-related crime is an increasing problem in Latvia both in terms of transit as well as drug use. Latvia ratified the main international conventions in the field of drugs. The implementation of its National Drug Control and Drug Abuse Prevention Strategy should be continued without delay and the action plan remains to be adopted. Furthermore, despite an agreement on collaboration between the Drug Enforcement Bureau and the Customs Board, signed in November 1999, and the establishment of a special division within the Customs Board for the Control of Drugs and Psychotropic Substances at border crossings, the role of the customs as well as border guards in actions related to the detection of drug smuggling has to be significantly strengthened. As drug traffickers are mostly exploiting trade and transportation networks, checks, in qualitative and quantitative terms, on trains and at border crossings, where most drugs enter, have to be increased. In order to improve drug prevention, judges have to be sensitised to the issue of drugs and judgements and fines in this field should have a deterrent effect. The recent legislative steps taken are positive.

Despite some improvements on co-ordination, there is still no central information capacity to support the law enforcement agencies. As drug smuggling is increasingly taking on an organised crime aspect, it is important to address this issue and to establish clear co-operation mechanisms amongst these agencies. The Drug Enforcement Bureau and the organised crime unit of the State Police both carry out intelligence activities related to drugs. The division of responsibilities needs to be clarified.

Against the background of an increase in drug crime, immediate action has to be taken on both supply and demand as well as on social rehabilitation of drug addicts. For this, adequate financial resources in order to establish the necessary drug prevention and rehabilitation measures have to be provided.

Latvia has reached a certain level of alignment in the field of **customs co-operation**. The main areas where further efforts are needed include the co-operation with business partners, improved risk analysis and further training. The activities initiated to fight corruption are encouraging, but should be strengthened throughout the administrative system. Further efforts are also needed to allow full participation of the Latvian customs in the Customs Information System and Naples II.

As regards **judicial co-operation in criminal and civil matters**, Latvia has ratified all the relevant Conventions of the Council of Europe in the field of criminal matters. Legislation on judicial co-operation in criminal matters, including mutual assistance, transfer of criminal proceedings, extradition and transfer of sentenced persons still has to be adopted. Legislative alignments are necessary as regards the concept of organised crime and criminalisation of membership in an organised criminal group in order to comply with the December 1998 EU Joint Action and also as regards the liability of legal entities.

Witness protection is guaranteed by the Criminal Law, but needs to be further developed in terms of the level of protection as well as operational co-operation. As regards combating trafficking of human beings and sexual exploitation of children, a programme had been worked out to introduce the relevant changes into the legislation. The new Criminal Law and Criminal Code of Procedures covers the exploitation of children as a serious crime. At present there is a split responsibility with regards to judicial co-operation on criminal matters between the Ministry of Justice, the Prosecutor General and the Ministry of the Interior.

On civil matters, Latvia has not yet signed the Convention on the Civil Aspects of International Child Abduction and the Convention on the service in the EU Member States of judicial and extrajudicial documents in civil and commercial matters. Full compliance with the Convention on jurisdiction, recognition of judgements and enforcement of judgements needs to be ensured. Legislation on international private law has still to be adopted.

Chapter 25: Customs union

Since the last regular report some progress has been achieved by Latvia in the field of customs and encouraging steps have been taken with regard to modernisation of the customs administration and to counter corruption and smuggling.

As regards the **EC Customs Code and its implementing provisions**, new provisions have been adopted in the fields of the combined nomenclature, end use, temporary admission and re-export. Latvia has made progress in this field which was one of the priorities under the 1999 Accession Partnership.

Regarding the **customs *acquis* outside the EC Customs Code**, amendments to the Latvian customs duty law were made to further harmonise the provisions for duty relief. Importantly, amendments were made to the Law on the State Revenue Service providing the customs service with the right to conduct criminal investigations. Adequate resources will now have to be allocated to train investigative professionals. A decision on rationalising the number of regional branches has not yet been made. Regarding the pan-European system of origin, Latvia has agreed to the amendments to the system which will come into force in January 2001. For the system to be complete, it remains for Latvia to sign the necessary Free Trade Agreements with Romania and Bulgaria.

Although attempts were made to close down some of the existing 175 (of which 100 are located in Riga) customs warehouses, very little progress has been achieved.

Concerning international Agreements and Conventions, no important developments have taken place.

As to **administrative and operational capacity**, over the last year, the Customs Board has signed several agreements with institutions active on the border or facilitating the work of customs officers. A protocol to the agreement signed in December 1999 between the SRS Customs Board and the Border Guards allows for simplified border procedures. A memorandum of understanding was signed with the Coast Guards. In addition, an agreement was signed with the Railway Administration in end of 1999. A memorandum of mutual co-operation between the SRS Customs Board and the Phytosanitary Inspection had already been signed in order to ensure the protection of public health.

A further result of improved inter-institutional co-operation is the establishment of the Smuggling Combating Centre (*see chapter 24 – Justice and Home Affairs*) in November 1999 (with a staff of 25 persons). The Smuggling Combating Centre is an institution established by the Cabinet of Ministers, but has however no legal power. Its main role is to co-ordinate the operative and pre-trial investigation procedures of the State Revenue Service, the State Police, the Security Police, the Border Guards and Customs in the field of anti-smuggling. Thus progress was made in this field which was also a priority under the 1999 Accession Partnership.

The customs service consists of the central headquarters in the State Revenue Service and regional customs units. There are about 1700 customs officers, but the situation remains difficult due to the lack of resources made available to the customs officials and due to the rather high levels of corruption (especially in warehouses). The establishment of further training centres (one in each region) is planned. Recent reforms seem to have contributed to a continued decrease in personnel turnover.

An organisational restructuring has taken place within the Customs Board in order to increase the administrative and operational capacity to implement the *acquis*. This included the creation of an administrative unit to implement customs control measures for protection of intellectual property rights (beginning of 2000) and a division for control of drugs and psychotropic substances (*see Chapter 5 - Company law*). A transit control division was created in October 1999. The Internal Audit Division of SRS National Customs Board monitors the code of ethics and legislation regarding prevention of corruption as well as developing and implementing measures to decrease the risk of corruption. In addition, post-clearance audit units in all regions and central headquarters have obtained initial encouraging results. Thus progress was made in this field which is also a priority under the 1999 Accession Partnership.

Regarding computerisation, the computerised customs information system (ASYCUDA) is operational at 8 customs check points and approximately 35% of all customs declarations are processed with the system. A computerised linkage between customs and tax administration is being completed. 67 out of 70 customs points are already connected to the network. Work is ongoing with regard to simplified procedures and their implementation.

In relation to border management (*see chapter 24 – Co-operation in the field of justice and home affairs*), some improvements have been made, both in terms of reallocation of resources and construction of posts and better equipment.

Overall assessment

In the legislative field, Latvia has achieved a good degree of alignment with the *acquis*. Work remains to be done in the fields of binding origin information, free zones, warehouses, customs debt and the repayment and remission of duties. Progress was made in strengthening customs control and improving co-ordination among the various bodies involved. However, the main challenge remains administrative modernisation including in the field of management.

Latvia is a contracting party to the Istanbul Convention on Temporary Admission, the Kyoto Convention on Simplification and Harmonisation of Customs Procedures and the TIR Convention.

Latvian customs now have greater powers in the field of enforcement. Therefore, more and better qualified staff, increased training to reinforce their role in priority fields and high risk areas such as the enforcement of intellectual property rights and the fight against smuggling, are necessary. Resources allocated for running expenses of customs have been the same over the last six years. In addition, the fight against fraud and corruption should remain a priority and be reinforced.

In relation to border management, controls at the eastern border remain a particular source of concern. Despite a number of improvements, continued progress is needed to

ensure an adequate level of controls at the future external border of the EU. The fight against smuggling needs to be reinforced. Sufficient budgetary resources should be allocated to establish adequate physical equipment, including customs laboratories, in order to allow for adequate checks to be carried out.

Chapter 26: External relations

As regards the **common commercial policy**, Latvia has continued to align its tariffs with those of the EC since 1999. Upon accession Latvia will be required to align its tariffs with the Common External Tariff (CET). Latvia's applied tariffs currently average 6.8% on all products, 18.9% on agricultural products, 12.6% on fishery products and 3.2% on industrial products. By comparison, the EC tariffs currently stand at 5.3% on all products, 9.4% on agricultural products, 12.4% on fishery products and 4.2% on industrial products.

In May 2000, a law "on protection against subsidised imports" was adopted, which will enter into force by January 2001. Latvia adopted legislation on anti-dumping in December 1999, which entered into force in July 2000.

As regards **bilateral agreements with third countries**, during the last year, Free Trade Agreements with Hungary and Turkey came into force, and negotiations continued with Bulgaria, Romania and the Faroe Islands.

Co-operation among the Baltic States in implementing gradual liberalisation and regional integration policies is developing and a Baltic Common Economic Area is being introduced. The Baltic Free Trade Agreement covers industrial and agricultural goods, and negotiations on the liberalisation of the services market are proceeding.

In the field of **development policy and humanitarian aid**, Latvia has no specific budget allocation for development or humanitarian aid, but has granted aid on a case-by-case basis.

Given that both the Ministry of the Economy and the Ministry of Foreign Affairs hold responsibilities in the area of trade, in October 1999, a consultative council for the coordination of foreign trade policy was created. In July 2000, a State Bureau of Commercial Defence was established under the supervision of the Ministry of the Economy to handle matters related to anti-dumping, anti-subsidy and safeguard measures.

Overall assessment

Overall, Latvia has made good progress in aligning to the Community *acquis* on commercial policy. Further harmonisation may be required upon accession. Accession to the Convention on the Law of the Sea will also have to be completed. Where medium and long term export credits are granted, further alignment to the *acquis* is necessary.

The EU and Latvia have established a framework for co-operation regarding WTO issues both at ministerial and at departmental level and Latvia has been supportive of EU policies and positions within the WTO framework. As regards the new round, Latvia concurs with the EU on the need to launch a comprehensive trade round as soon as possible and shares the view that the results of work under the built-in-agenda would be

less substantial in its absence. Latvia is a signatory to the Agreement on Trade in Information technology Products (ITA) and to the plurilateral Agreement on Civil Aircraft. Latvia needs to join the plurilateral WTO agreement on Government Procurement prior to accession. Latvia is at present an observer to the GPA Committee; negotiations on Latvia's accession to the GPA started in 1999. As regards the WTO Agreement on Trade in Textiles and Clothing, Latvia needs to align its integration programmes for stages 1, 2 and 3 with those of the EC. Also, further co-ordination is necessary in order to consolidate the adjustment of the Latvian list of commitments in GATS with the EC commitments and MFN exemptions.

Latvia has continued to align itself with EC trade rules by becoming a party to various preferential trade agreements. In addition to Free Trade Agreements concluded recently with Hungary and Turkey, Latvia has bilateral Free Trade Agreements with the Czech Republic, the Slovak Republic, Slovenia, Poland, Estonia and Lithuania (Baltic Free Trade Agreement), Ukraine and EFTA. Latvia should continue to keep the Union fully informed about existing trade agreements or negotiations aimed at the conclusion of any new trade agreements with a third country.

As concerns development aid, no GSP schemes are being applied by Latvia.

The responsibility for foreign economic policy is shared by the Ministries of Foreign Affairs and of the Economy. The department of trade policy within the Ministry of Agriculture deals with agricultural trade issues (including WTO matters). Some upgrading might be needed in order to dispose of the necessary administrative capacity upon accession, also with a view to participating in the EU's development and humanitarian aid policies. The administrative infrastructure which needs to be in place as regards customs services is addressed under the chapter relating to the Customs Union (*chapter 25 - Customs union*).

Chapter 27: Common foreign and security policy

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

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

As regards **alignment with EU statements and declarations**, Latvia has regularly aligned its positions with those of the Union and, when invited to do so, has associated itself with the Union's **joint actions and common positions**. During the course of 1999 Latvia associated itself, together with the other CEECs, with one joint action of the EU. It also associated itself with 11 EU common positions, including 3 on the Federal Republic of Yugoslavia. In the year 2000, as of 30 June, Latvia has associated itself with 3 EU common positions.

Since the last regular report of 1999, progress has been made in adopting the necessary legislative framework for effective participation in the CFSP. Following the adoption of

amendments to existing legislation in March and June 2000, Latvian legislation is now in line with the *acquis* concerning sanctions (previously, only UN sanctions were covered). This will allow Latvia to quickly align itself with the Union's decisions on the imposition of international sanctions.

Overall assessment

The overall progress achieved since 1997 in alignment with the *acquis* of the CFSP is satisfactory. The only outstanding issue concerns the question of diplomatic and consular protection, where Latvian legislation foresees a broader coverage than the *acquis*. As the *acquis* in the field of foreign policy and security develops further, Latvia should maintain the orientation of its foreign policy in line with that of the Union.

As an Associated Partner of the WEU, Latvia actively participates in the discussions and activities, including participation in the WEU/NATO CRISEX exercise at the beginning of 2000.

Following the Kosovo crisis, Latvia showed active support for and interest in the Stability Pact. Latvia also actively participated in NATO-led operations of SFOR by sending 140 Latvian troops of the Baltic Battalion to Bosnia from October 1999 to April 2000. A team of 10 Latvian military medics, policemen and one liaison officer continued to work in Albania in the framework of the NATO-led KFOR operations.

Latvia strives to contribute to regional stability through a policy of good-neighbourly relations and regional co-operation, i.a. as an active member of the Council of Baltic Sea States (CBSS). Land border agreements have been concluded with Estonia, Lithuania and Belarus. A sea border agreement with Lithuania has been signed. The demarcation of the Latvian-Belarusian border has been completed on the Latvian side. The draft border agreement with Russia was finalised and approved by the Latvian Government in December 1997 and awaits final approval by Russia.

The structures required to participate in the formulation and implementation of the CFSP are in place in the Ministry of Foreign Affairs. It has the capacity to effectively participate in the Associated Correspondents' Network both in terms of staffing allocations and in terms of appropriate information systems.

Chapter 28: Financial control

In the area of financial control, efforts continued during the last year, and good progress can be noted particularly as concerns Public Internal Financial Control, for which the administrative capacity has also been strengthened.

The 1999 Accession Partnership includes the completion of the legislative framework for internal and external financial control as a short-term priority.

Regarding the **internal financial control system**, progress was made in approving regulations on internal audit, including a Charter of the Internal Audit Council (in October 1999), providing the arrangements for the establishment, management and development of internal audit in ministries and other institutions of the public administration and institutions under subordination or supervision of ministries.

Subsequently, the Internal Audit Council was appointed in June 2000 in order to co-ordinate the implementation of the internal audit system, the development of uniform internal audit policy and the reinforcement of internal audit activities in the public sector. A handbook on internal audit (approved in November 1999) is considered a useful step to enhance implementation of the internal audit concept.

As regards administrative capacity, Internal Audit Units (IAU) have been established and staffed in all line ministries and their subordinated and supervised institutions (in total about 180 internal auditors). Reporting structures, including a data base, have been established which should allow the IAU to monitor work of internal audit units and audit implementation plans. Substantial training activities for internal auditors were carried out during the last year.

Concerning **external financial control**, progress was made in that the State Audit Office Council had adopted in December 1999 a strategic development plan for the period 2000 – 2005. It covers the development of the legal framework, audit methodology, competence development, management ability and information technology. In a first step, pilot audits are being carried out in a number of public institutions including local governments. In addition, a working group, involving all responsible public bodies, was established in March 2000 in order to prepare amendments to the current law on State Audit Office which intend to improve its independence and role in public auditing. As regards the administrative structures, Latvia employs 173 persons (of which 120 are auditors) in the State Audit Office since January 2000, thus having strengthened its capacity in this field.

In relation to the **control measures relating to Own Resources**, the Latvian State Revenue Service (SRS) and customs are being modernised in order to enhance its operational and administrative capacity in this process. This requires an improved internal organisation as well as completion of computerisation and strengthening of human resources. In this respect, Latvia has established an Internal Control Division in the SRS.

Regarding **the control of structural action expenditure**, Latvia has adopted legislation on the national fund which requires that EC funds are to be jointly audited by the relevant ministry's Internal Audit Unit and the internal auditors of the Ministry of Finance's Internal Audit Unit. The result of these audits will be reported to the State Secretary responsible for the audited institution/body and to the National Authorising Officer who takes the final responsibility.

In the **field of protection of EC financial interests**, EC funds now in principle receive the same treatment as national funds. Procedures are being developed in order to carry out joint audits between the Ministry of Finance and the line ministries. Some steps were taken in order to strengthen the fight against corruption.

Overall assessment

Good progress has been achieved in this area and particularly in the field of Public Internal Financial Control, although further efforts are necessary to guarantee that international standards are fully met by Latvia. For external financial control, efforts need to continue.

Regarding the internal financial control system, the Internal Audit Council should be empowered and given the necessary means for the execution of their tasks and the role of the Ministry of Finance is to be reinforced. The Ministry needs to strengthen its central harmonising and co-ordinating role in internal control and audit. Functional independence of internal audit units needs to be ensured. In this respect, a law on internal audit has to be drafted. Controls need to be extended to all public institutions as well as agencies. The “ex-ante” control function needs to be improved, while staff training needs to continue. Financial management and control mechanisms, manuals and audit trails for pre-accession funds have to be developed. In addition, risk assessment should be carried out and a computerised reporting system in all ministries dealing with funds needs to be set up. Implementing schemes including deadlines should be developed.

As regard external financial control, the State Audit Office (SAO) should audit the Government’s implementation of the budget and assess its internal control and audit systems. Latvia needs now to amend the current law on SAO in order to address the issue of the SAO’s financial independence, to extend its mandate in performing the audit of EC funds, to end the SAO’s right of imposing administrative fines, to define the scope and mandate for all audit responsibilities and to confer the right to audit of end users as well as general access to all public institutions and agencies.

In order to strengthen the impact of the audit system, formal procedures allowing for its Parliamentary examination should be established.

In relation to the control of future EC Own Resources, Latvia should continue its efforts to develop effective instruments to combat fraud relating to VAT and customs duties. Efforts also need to be made in order to enhance Latvia’s capacity for the management of the pre-accession funding and future structural fund. The development of mechanisms for the expedient recovery of lost EC funds is equally important.

Finally, with a view to ensuring adequate protection of EC financial interests, Latvia needs to put in place the necessary legislation to allow the competent EC bodies to carry out on-the-spot checks including compliance tests as well as to develop adequate administrative capacity to implement the *acquis*, including as regards the ability of the Latvian law enforcement bodies and judiciary to address cases where EC financial interests are at stake. Latvia should nominate as soon as possible a single contact point for the relations and co-operation with the bodies competent for the protection of the EC financial interests, in particular with OLAF.

Chapter 29: Financial and budgetary provisions

During the last year, Latvia has undertaken several steps in this area.

Latvia has made some progress as regards **the national budget and EC co-financed measures**. Amendments to the Law on Budget of December 1999 entered into force in January 2000. In addition, it was decided that international assistance, including EC financial assistance, would be integrated into the national budget. Work has started on introducing the principle of medium- and long-term budget planning in the budgetary process.

Concerning **own resources and administrative infrastructure**, and in particular own resources collected from sugar duties, Latvia adopted amendments to the Law on Sugar

in January 2000, foreseeing *inter alia* the introduction of customs duties on sugar imports. Otherwise, little progress can be reported for this area.

Overall assessment

Further efforts are required by Latvia both in relation to the national budget and own resources.

The new budgetary legislation, if appropriately implemented and completed, will meet the standards of the EC. Further strengthening will be necessary, particularly as regards the development of evaluation and monitoring procedures for programmes and projects, especially those set to receive Community funding. The planned system of medium-term programming of expenditure may also need some further adjustments once it becomes operational.

The organisation and the procedures for the management of EC pre-accession funds have been defined and are in the process of implementation.

Concerning the Community's own resources, further alignment of existing legislation on sugar will be necessary, also as concerns warehouse provisions. Further progress towards full alignment for the calculation of the VAT resource is also required. Calculation methods applied by Latvia on GNP largely correspond to ESA 95 norms, and work on reaching compliance is ongoing.

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

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

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

By mid-2000, roughly 14400 pages of the Official Journal had been translated into Latvian, of which about 5200 were translated during the first half of 2000 alone. The overall number of fully revised pages is slightly lower but almost keeping pace with translation (in comparison, in early 2000, roughly 9900 pages had been translated of which roughly 8400 had been fully revised). Work is progressing on the generation of term equivalents for English and Latvian respectively. A complete database for the translated *acquis* needs to be established. Most of the *acquis* translation so far has been done for the Ministries of Agriculture, Finance and Welfare.

The translation of the *acquis* into Latvian and the translation of Latvian legislation into English is assumed by the Translation and Terminology Centre (TTC), which was established in 1996 and reports to the European Integration Bureau. The current staff of

the centre includes the equivalent of 4.5 in-house legal revisers (some work part-time), 4 language revisers and 8 translators. A significant part of the work is carried out by freelance translators. The budgetary situation of the Centre appears to be critical. The freelance translators have been solely financed with support from the Phare programme. According to calculations carried out recently, over €4 million would be needed to complete the translation of the *acquis* by the Government's target accession date of 2003, whereas the current national budgetary allocation for the Centre amounts to less than €0.3 million annually. Considerable further efforts are required in this area.

3.3. General evaluation

During the last year, Latvia has continued to make steady progress in aligning its legislation to the *acquis* in most areas. While overall progress in terms of strengthening the administrative capacity has been more limited, Latvia nevertheless undertook efforts to re-structure and reinforce its institutions in several sectors, and decided to establish several new bodies in line with the provisions of the *acquis*.

Good progress could again be noted as concerns the *Internal Market*, in particular with the adoption of legislation on conformity assessment, market surveillance and public procurement, as well as Laws on Personal Data Protection and on Copyrights, the Commercial Code and the liberalisation of many restrictions on capital movements. On this basis and in line with the requirements of the *acquis*, it will now be important to further develop the necessary institutional structures, including a reform of the market surveillance authorities, the establishment of a Public Procurement Surveillance Bureau and an Independent Data Protection Inspectorate. Little visible progress was made during the last year concerning the enforcement of intellectual property rights, which remains an issue of major concern. In the areas of *customs and taxation*, encouraging steps have been taken to strengthen the administrative structures, and these efforts should continue.

While some steps both in terms of alignment and of strengthening the administration were taken in the area of *agriculture* during the last year, only limited progress has been achieved overall, and the preparations for the integration of Latvia's agricultural sector into the EC still remain in the early stages. As concerns *transport*, progress continued during the last year in terms of alignment and also in particular in strengthening the administration, notably by setting up an independent investigation authority for civil aviation accidents and by restructuring the authorities in charge of maritime safety, where efforts need to continue in order to achieve concrete results. For the *environment*, further progress related to the adoption of legislation has been achieved, notably as concerns environmental information, nature protection, waste management and GMOs, and some efforts to strengthen the administration were also made. Much work still lies ahead, however. Good progress in legal alignment was also made in the field of *consumers and health protection*.

Regarding *justice and home affairs*, progress was achieved concerning visas and the upgrading of law-enforcement bodies. Latvia also made considerable efforts in border control during the last year, and these should be sustained. Alignment needs to be completed for migration and asylum, and several international conventions still need to be acceded to. Significant further steps will also be necessary to ensure the full enforcement of all provisions. In the field of *financial control*, Latvia made particular efforts during the last year, especially as concerns internal financial control, for which the

administrative structures have also been reinforced. Efforts should continue, most specifically in the field of the control mechanisms for pre-accession funds.

In certain areas, progress in alignment has been less forthcoming. These include the *free movement of persons* and *telecommunications and information technologies*, where the transposition of most of the requirements of the *acquis* is still pending. As to *social policy and employment*, some efforts were made to move forward but key legislation has still not been passed. As concerns *regional policy*, Latvia's preparations for accession to the EU still need to be reinforced.

Latvia has already been relatively successful in building up its administration in a few areas of the *acquis*. These include the Internal Market, where for example the institutions in charge of the banking sector or competition policy and state aids have already gained valuable initial experience. For most sectors, however, important challenges still lie ahead. In areas including agriculture, the environment, social policy, justice and home affairs as well as regional policy, the Latvian authorities responsible are not yet in a position to manage the *acquis* in a satisfactory manner. In general, the strengthening of the Latvian administration needs to continue in all areas in parallel and complementary to the general public administration reform process.

During the last year, Latvia has started to address almost all of the relevant short-term priorities of the 1999 Accession Partnership, and has already achieved a certain degree of success in most cases. This includes in particular the adoption of several pieces of key legislation in the Internal Market and of framework legislation in the environment sector, as well as work on the modernisation of the tax and customs administrations, efforts related to maritime safety and the upgrading border posts. Work should now continue on all short-term priorities in order to fulfil them as soon as possible. Those parts of the short-term priorities for which no visible progress has been made so far should be focused on as a matter of priority. Apart from a few specific aspects in the Internal Market field, this, for example, includes priorities related to employment and social affairs, as well as to justice and home affairs.

Latvia has already started to work towards meeting some of the medium-term priorities of the 1999 Accession Partnership, including in the areas of audiovisual policy, consumer protection, energy and transport.

C. Conclusion

Latvia continues to fulfil the Copenhagen political criteria. The last year saw progress in carrying forward the Public Administration Reform process, including the adoption of a new Civil Service Law; in improving the functioning of the judicial system; and in designing the framework for the fight against corruption. Several important steps were taken to support the integration of non-citizens into Latvian society, including the adoption of a Language Law and implementing regulations that essentially comply with Latvia's international obligations and the Europe Agreement, as well as a Programme for the Integration of Latvia's Society. Latvia has thereby advanced in addressing the short-term priorities of the 1999 Accession Partnership.

It will be necessary to continue and accelerate the Public Administration Reform process, in particular with the adoption of key legislation; to further strengthen the judicial system; and to continue the fight against corruption on a broad scale. On the basis of the new Civil Service Law, Latvia needs to develop a professional and stable civil service and to improve the capacity of the public administration to implement and manage the *acquis*, as suggested by the relevant medium-term priorities of the 1999 Accession Partnership.

To facilitate and promote the integration of non-citizens, the effectiveness of the Naturalisation process needs to be maintained and Latvian language training needs to continue and be expanded in accordance with the relevant medium-term priority of the 1999 Accession Partnership. It will also be important to ensure that sufficient resources are allocated to measures promoting the integration of non-citizens. The Language Law and its implementing regulations need to only be applied and enforced to the extent required by a legitimate public interest, having regard to the principle of proportionality and in conformity with Latvia's international obligations and the Europe Agreement.

Latvia can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces in the Union in the medium term, provided that it completes and maintains the pace of its structural reforms.

Latvia has preserved macroeconomic stability. Progress has been made also on structural reform. The legislative framework for a market economy is largely in place and market entry and exit mechanisms function in an increasingly satisfactory manner. The financial sector is currently small but functions well.

However, the current-account deficit must be kept under control. Enterprise privatisation has not yet been completed. Considerable efforts are needed to encourage private and public investments and to enhance the market oriented skills of the workforce.

The authorities must continue a policy of fiscal discipline and fiscal consolidation should be pursued. Completion of enterprise privatisation for the remaining large companies should be carried out without any further delays. Latvia should continue to foster domestic enterprise creation by making entry procedures simpler and more transparent, by further improving the environment for foreign investors, and by enhancing infrastructures and access to finance. Financial intermediation needs to increase. Labour market flexibility should also be enhanced.

During the last year, Latvia has continued to make steady progress in aligning its legislation to the *acquis* in most areas. While overall progress in terms of strengthening the administrative capacity has been more limited, Latvia nevertheless undertook efforts to re-structure and reinforce its institutions in several sectors, and decided to establish several new bodies in line with the provisions of the *acquis*.

Good progress could again be noted as concerns the *Internal Market*, in particular with the adoption of legislation on conformity assessment, market surveillance and public procurement, as well as Laws on Personal Data Protection and on Copyrights, the Commercial Code and the liberalisation of many restrictions on capital movements. On this basis and in line with the requirements of the *acquis*, it will now be important to further develop the necessary institutional structures, including a reform of the market surveillance authorities, the establishment of a Public Procurement Surveillance Bureau and an Independent Data Protection Inspectorate. Little visible progress was made during the last year concerning the enforcement of intellectual property rights, which remains an issue of major concern. In the areas of *customs and taxation*, encouraging steps have been taken to strengthen the administrative structures, and these efforts should continue.

While some steps both in terms of alignment and of strengthening the administration were taken in the area of *agriculture* during the last year, only limited progress has been achieved overall, and the preparations for the integration of Latvia's agricultural sector into the EC still remain in the early stages. As concerns *transport*, progress continued during the last year in terms of alignment and also in particular in strengthening the administration, notably by setting up an independent investigation authority for civil aviation accidents and by restructuring the authorities in charge of maritime safety, where efforts need to continue in order to achieve concrete results. For the *environment*, further progress related to the adoption of legislation has been achieved, notably as concerns environmental information, nature protection, waste management and GMOs, and some efforts to strengthen the administration were also made. Much work still lies ahead, however. Good progress in legal alignment was also made in the field of *consumers and health protection*.

Regarding *justice and home affairs*, progress was achieved concerning visas and the upgrading of law-enforcement bodies. Latvia also made considerable efforts in border control during the last year, and these should be sustained. Alignment needs to be completed for migration and asylum, and several international conventions still need to be acceded to. Significant further steps will also be necessary to ensure the full enforcement of all provisions. In the field of *financial control*, Latvia made particular efforts during the last year, especially as concerns internal financial control, for which the administrative structures have also been reinforced. Efforts should continue, most specifically in the field of the control mechanisms for pre-accession funds.

In certain areas, progress in alignment has been less forthcoming. These include the *free movement of persons* and *telecommunications and information technologies*, where the transposition of most of the requirements of the *acquis* is still pending. As to *social policy and employment*, some efforts were made to move forward but key legislation has still not been passed. As concerns *regional policy*, Latvia's preparations for accession to the EU still need to be reinforced.

Latvia has already been relatively successful in building up its administration in a few areas of the *acquis*. These include the Internal Market, where for example the institutions in charge of the banking sector or competition policy and state aids have already gained

valuable initial experience. For most sectors, however, important challenges still lie ahead. In areas including agriculture, the environment, social policy, justice and home affairs as well as regional policy, the Latvian authorities responsible are not yet in a position to manage the *acquis* in a satisfactory manner. In general, the strengthening of the Latvian administration needs to continue in all areas in parallel and complementary to the general public administration reform process.

During the last year, Latvia has started to address almost all of the relevant short-term priorities of the 1999 Accession Partnership, and has already achieved a certain degree of success in most cases. This includes in particular the adoption of several pieces of key legislation in the Internal Market and of framework legislation in the environment sector, as well as work on the modernisation of the tax and customs administrations, efforts related to maritime safety and the upgrading border posts. Work should now continue on all short-term priorities in order to fulfil them as soon as possible. Those parts of the short-term priorities for which no visible progress has been made so far should be focused on as a matter of priority. Apart from a few specific aspects in the Internal Market field, this, for example, includes priorities related to employment and social affairs, as well as to justice and home affairs.

Latvia has already started to work towards meeting some of the medium-term priorities of the 1999 Accession Partnership, including in the areas of audiovisual policy, consumer protection, energy and transport.

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

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

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

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

1. Accession Partnership

In the following assessment the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in italics.¹⁵

Short-term priorities

The short-term priorities of the 1999 Accession Partnership and an assessment of progress made in their fulfilment are set out below.

- **Political criteria:** The final version of the *Language Law* adopted in December 1999 is now essentially in conformity with Latvia's international obligations and the Europe Agreement. In the application and enforcement of the Law and its implementing regulations, conformity with these obligations will need to be maintained. A framework document 'The Integration of Society in Latvia', as well as a short version, have been adopted, but the implementation has not yet started. The Latvian *Language Training* Programme has continued. There is, however, still a significant shortage of language teachers, and the Latvian government should earmark more funds for this in the coming years. **Therefore, this priority has been partially met.**
- **Economic criteria:** The government has focused its efforts on *investment* promotion during the last year, promoting the availability of a qualified work force, access to long-term finance, the fight against corruption, and the improvement of border crossing and tax appeal procedures. In February 2000, a second Action Plan to improve the business environment was adopted. Further measures to improve competitiveness will need to be taken. The *privatisation* of the remaining large utility companies has made further but slow progress. While *registration of land* in the Cadastre has been virtually complete for several years, registration in the Legal Register (Land Book) has been much slower and now stands at about 45%. An

¹⁵ For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership please refer to Decision 1999/854/EC (OJ L 335/29 of 28.12.1999).

electronic system linking the two is currently being developed. A Law on Public Services *Regulators* was adopted by Parliament in October 2000, foreseeing the establishment of a regulatory authority for the areas of energy, telecommunications, postal services, and railways to be operational by September 2001. **Therefore, this priority has been partially met.**

- **Internal market:**

The Law on Government and Municipal *Procurement* was amended and the Law on Works, Supplies, Lease and Services procured by entities operating in the public utilities sector was adopted. The legislation foresees the creation of a Public Procurement Surveillance Bureau. A new Law on *Copyrights* and Neighbouring Rights came into force in May 2000, aiming at alignment with the *acquis*. Little progress was made to strengthen the enforcement of copyright and trademark legislation. Following the establishment of an *intellectual property* rights division in the Customs Board last year, an increasing number of CDs, videotapes, audio tapes and software CDs was seized. A new Law on *Personal Data Protection* was adopted in March 2000, foreseeing that a State Data Protection Inspectorate will become operational as of January 2001. In April 2000, the new Commercial Code was adopted, transposing a number of *company law* directives and simplifying the legal framework for entrepreneurial activities.

Concerning *free movement of goods*, the Law on Conformity Assessment was amended, and two implementing regulations were adopted, thereby completing the overall legislative framework. Concerning sector-specific legislation, a number of *acquis* provisions have been transposed, including provisions on medical devices and pharmaceuticals. In the area of market surveillance, the adoption of the Law on Products and Safety provided the basis for the reform of the market surveillance institutions. In the area of *capital movements* and payments, substantial liberalisation measures have been taken during the last year, eliminating restrictions in the areas of radio and television, lotteries and gambling, and logging. A few restrictions nevertheless continue to exist. Concerning the *free movement of services*, some progress was made on horizontal legislation and insurance (accounting rules). However, the prohibition of establishment of branches by foreign insurance companies has not yet been lifted.

In the field of *taxation*, some progress on VAT legislation was achieved. Legislation concerning excise duties on beer was adopted as well as regulations concerning alcoholic beverages and tobacco. A number of steps to improve the administrative capacity for tax collection were taken, and the State Revenue Service has been reorganised. In the area of *customs*, new provisions have been adopted in the fields of the combined nomenclature, end use, temporary admission and re-export. The Law on *Customs* duty was also amended to further harmonise the provisions on duty reliefs. An anti-smuggling centre was set up in November 1999. In addition, several other units were created to enhance the functioning of the customs administration. **Therefore, this priority has been partially met.**

- **Agriculture:** Some progress has been made in aligning to the *veterinary and phytosanitary legislation*, and in particular concerning animal welfare, veterinary medicine and identification and registration of animals, as well as plant health and animal nutrition. Significant further efforts will, however, be required. The *upgrading* and equipping of *border* posts has continued ; however, only a very low number

presently corresponds to EC standards. Latvia adopted *hygiene standards* for a few product categories, including milk and meat. While a few further *processing plants* were granted permission to export to the EC, the process of bringing them into line with EC requirements is far from being completed. **Therefore, this priority has been partially met.**

- **Transport:** Since last year, Latvia has adopted certain pieces of legislation which are of relevance for *maritime safety*, such as requirements for vessels carrying dangerous goods and passenger registration on ships. A restructuring of the maritime administration was started to improve the performance record of the port state and flag state control. The record of Latvian-flagged vessels stands at a low level, and the performance of the port state control still needs to be strengthened significantly. **Therefore, this priority has been partially met.**
- **Employment and Social Affairs:** The government adopted the *National Employment Plan* for the year 2000 in February 2000. The procedure for the *Joint Employment Review* was launched in July 2000. While tripartite social dialogue is already fairly well established in Latvia, no visible progress has been made in developing *bi-partism*, which remains underdeveloped. The new *Labour Code*, which will transpose an important number of *acquis* provisions, was still pending in Parliament at the time of completion of this report. **Therefore, this priority has been partially met.**
- **Environment:** Latvian legislation on *environmental impact assessment* is largely in line with the *acquis*, but some further amendments will be necessary. The Environmental Impact Assessment Bureau has completed several assessments. As concerns *legal alignment*, Latvia made good progress in the areas of nature protection, waste management and GMOs; overall compliance is well advanced in air quality, GMOs and nuclear safety, but less so in water quality, waste management, industrial pollution control and risk management. For the sectors of noise, chemicals and biocides, alignment is still in the very early stages. Overall, the pace of transposition should be accelerated. Concerning the *environmental administration*, a decision was taken to reinforce the Environmental Impact Assessment Bureau and the regional boards, as well as to establish a radiation safety centre. Work on *cost estimates* continued during the last year. Latvia plans to reach the necessary level of investments by the year 2014. **Therefore, this priority has been partially met.**
- **Justice and home affairs:** Several steps were taken to improve the co-ordination between the different authorities involved in *border control*, and the budgetary allocation as well as staffing at the Eastern border were increased. Nevertheless, further efforts will be necessary. Computerisation is progressing but needs to be improved further. Concerning *law enforcement bodies*, the establishment in December 1999 of the Secretariat of the Crime-Prevention Council which is in charge of improving co-ordination between all involved institutions, is a sign of progress. Several co-operation agreements between the various institutions involved were concluded to improve information flows. Concerning the *judiciary*, the backlog of court cases continues to be high, and the training of judges continues to be insufficient. However, courses for all judges were held last year, and increased state funding for training was made available. In the area of *migration*, a system of airport transit visas was introduced, and procedures to obtain residence permits were simplified. Concerning *asylum*, work started to set up a registration database. *Corruption* continues to pose a serious obstacle to the proper and efficient functioning

of the public administration. Some steps were taken during the last year both at conceptual level and in the institutional set-up. The European Criminal Law *Convention* has not yet been ratified, and the OECD Convention on Bribery has not yet been signed. **Therefore, this priority has been partially met.**

- **Reinforcement of administrative and judicial capacity, including the management and control of EC funds:** Since last year, the new government has demonstrated its commitment to continuing the process of *Public Administration Reform* and some practical measures were taken. While a new Law on Civil Service was adopted in September 2000, a Framework Law on the Institutional Structure of the Public Administration and a Law on State Agencies were awaiting adoption by Parliament at the time of completion of this report. Work on the *National and Rural Development Plans* has continued during the past year, and the final version of the Rural Development Plan was adopted in October 2000. A *paying agency* for SAPARD has been set up but not yet accredited. Concerning *financial control*, regulations were adopted, the Internal Audit Council was appointed in June 2000, and all line ministries now have internal audit units. A strategic development plan for external audit was adopted in December 1999, and a working group started work on drafting legislation. **Therefore, this priority has been partially met.**

Medium-term priorities

This section covers those medium term priorities where a degree of progress has been made.

- **Economic criteria:** Latvia has already started to work on establishing an annual fiscal surveillance procedure aimed at bringing the reporting, monitoring and control of public finances, specifically fiscal positions, in line with EC procedures.
- **Internal market:** Latvia has continued the process of alignment in the *audiovisual* sector with amendments to the Radio and Television Law of October 1999. Certain measures were taken to enhance the powers of the regulatory body, the National Radio and Television Council. The *Consumer Protection* Law of 1999 was complemented by the Advertising Law, adopted in December 1999, in order to implement EC requirements. Legislation was also adopted on distance selling, doorstep selling and timesharing, as well as on product and services safety and on liability for deficiencies in goods and services. The Consumer Rights Protection Centre has continued to establish co-operation agreements and started to implement standards.
- **Energy:** As concerns *electricity*, regulations related to consumers were adopted. The Energy Regulation Council made steps towards competitive behaviour by accepting a methodology for tariff calculations for transmission and distribution system networks. In December 1999, tariffs for electricity were approved according to the new method. The government adopted a strategy document on the establishment of *oil stocks* in February 2000 and confirmed that energy supply companies would become responsible for their establishment and maintenance.
- **Transport:** Concerning *road transport*, several regulations related to the carriage of dangerous goods by road were adopted in December 1999 and March 2000. Latvia has started to install equipment to check weights and dimensions at several posts along its borders. In February 2000, legislation concerning road worthiness tests was issued. An

independent investigation authority for civil *aviation* accidents was established in January 2000.

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

The latest edition of Latvia's National Programme for the Adoption of the *Acquis* (NPAA, known in Latvia as the National Programme for Integration into the European Union) was adopted by the government in May 2000. No significant structural changes were introduced this year except for a new annex of tables analysing institution building requirements for the individual accession negotiation chapters. The 2000 NPAA contains five such tables, and the rest are expected to be completed by the end of the year. The NPAA is divided into four main parts in accordance with the Copenhagen political, economic and *acquis* criteria and the Madrid administrative capacity criteria. Each of the four parts covers several sectors, following the structure of the Commission's regular reports. The main text is complemented by technical tables with project proposals and implementation plans, as well as financial tables for each action. The updated NPAA again contains extensive references to the Accession Partnership priorities and the analysis of the Commission's Opinion and regular reports. While the coverage of the Accession Partnership priorities has been extended, the medium-term priorities are not always treated with the same degree of detail. The implementation of the NPAA continues to be monitored via an electronic management system accessible to all line ministries.

The information provided in the 2000 NPAA is again generally consistent with commitments made in other contexts or documents (for example the Joint Assessment on medium-term economic priorities). There are a few discrepancies as concerns the deadlines indicated for certain sectors (for example as concerns payments systems, where different indications were given during the bilateral screening exercise). Overall, the deadlines provided in the 2000 NPAA again appear to be realistic. In a few areas, a tighter schedule could be desirable. More generally, it could be envisaged to also provide target dates on the planned entry into force of new legislation.

The 1999 regular report already stated that the NPAA contained a comprehensive coverage of all relevant sectors but that more attention could be paid to the legislative developments in the medium term. The 2000 NPAA fills certain gaps that had been identified in the 1999 version, for example in the area of environment. Further, the revised NPAA makes an effort to integrate recent developments on the EU side, for example as concerns recent *acquis* on GMOs and Novel Foods. In a number of sectors a more detailed coverage would be desirable. This includes capital movements, transport, taxation, energy, social policy and employment or Justice and Home Affairs. Furthermore, there are some factual errors (for example in the audio-visual part), and some issues are addressed in a different context than they would be in a EU context, which can give rise to some confusion (the social policy and employment chapter, for example, lists five internal market directives). While the NPAA refers to the regional and local levels in some sections, they are not yet covered in detail. In the area of agriculture, for example, with the exception of the implementation of SAPARD, there is very little information on the need for reorganisation of regional bodies. More attention should be paid to explaining in how far planned Latvian legislation transposes the *acquis* and whether all or only parts of the relevant *acquis* are covered (for example, in agriculture, foodstuffs or social policy and employment).

In a number of areas, more detailed coverage of the administrative implications of the adoption of certain parts of the *acquis* would be useful. This includes, for example, payments systems, regional policy or financial control. As the transposition of the *acquis* progresses, the emphasis will have to shift to its enforcement, and this should be reflected accordingly in the NPAA. The 1999 regular report confirmed that the 1999 NPAA already contained a good coverage of institutional needs ; however, there was no information on numbers of staff, extent of training needs or planned activities. The 2000 NPAA aims to provide more detailed indications on the staffing situation in the newly added tables on institutional needs by negotiation chapter (*see above*). These tables also provide helpful clarification concerning the suggestion of the 1999 regular report that the financial part of the NPAA, which indicated aggregate sums for each action, should be broken down (development of legislation ; cost of additional staff ; cost of training for staff etc.). As was the case in the 1999 NPAA, the 2000 version of the financial estimates is based on 'budgetary realism', meaning that only those amounts which can be covered by the 2000 national budget are mentioned. The fact that the principle of long-term budget is planned to be applied could allow for a more realistic picture on the real financial implications of preparing for EU membership in the next updates of the NPAA.

The NPAA has established itself as a national management framework for the pre-accession period. Extensive reference to related documents (National Development Plan, Rural Development Plan) and instruments (PHARE, ISPA, and SAPARD) is made. Further integration of the different tools could be envisaged (for example, for the environment sector, the specific implementation programmes could be made part of the NPAA). To render the NPAA more user-friendly, and as recommended in the 1999 regular report, a clear summary of the document would be helpful. In its present form, the coherence of the NPAA is somewhat hampered by the multitude of annexes and tables.

Annexes

*Human Rights Conventions ratified by the Candidate Countries,
September 2000*

<i>Parties to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SV	TK
ECHR (European Convention on Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	O	X	X	X	X	X	X	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	X	X	X	X	X	X	O	O	X	X	X	O
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	X	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	X	X	O	X	O	O	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	X	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	X	O	O	X	O	O	X	O	X	X	X	O
ICESCR (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
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; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey

Statistical data

	1995	1996	1997	1998	1999
Basic data	in 1000				
Population (average)	2.516	2.491	2.469	2.449	2.432
	in km²				
Total area	64.589	64.589	64.589	64.589	64.589

National accounts	1000 Mio Lats				
Gross domestic product at current prices	2,3	2,8	3,3	3,6	3,7
	1000 Mio ECU/euro				
Gross domestic product at current prices	3,4	4,0	5,0	5,4	5,7
	ECU/euro				
Gross domestic product per capita ¹⁶ at current prices	1.400	1.600	2.000	2.200	2.400
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	-0,8	3,3	8,6	3,9	0,1
	in Purchasing Power Standards				
Gross domestic product per capita ¹⁷ at current prices	4.288	4.656	5.291	5.589	5.786
	% of Gross Value Added¹⁸				
Structure of production					
- Agriculture	10,8	9,0	5,8	4,3	4,0
- Industry (excluding construction)	28,1	26,4	27,4	23,4	20,0
- Construction	5,1	4,7	4,8	6,9	7,6
- Services	56,0	59,9	62,0	65,4	68,4
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	84,8	89,2	85,7	85,9	:
- household and NPISH	62,6	67,6	66,6	64,5	:
- general government	22,2	21,6	19,1	21,4	19,0
- Gross fixed capital formation	15,1	18,1	18,7	27,3	25,0
- Stock variation ¹⁹	2,5	0,8	4,1	0,3	:
- Exports of goods and services	46,9	50,9	51,0	51,3	46,7
- Imports of goods and services	49,3	59,0	59,5	64,8	57,6

Inflation rate	% change over the previous year				
Consumer price index ²⁰	25,0	17,6	8,4	4,7	2,4

¹⁶ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁷ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁸ Including FISIM.

¹⁹ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

²⁰ Changes in Methodology: PROXY HICP since 1999 (see methodological notes)

Balance of payments²¹	in Mio ECU/euro				
-Current account	-14	-220	-305	-632	-602
-Trade balance	-444	-629	-748	-1.007	-964
<i>Exports of goods</i>	1.047	1.172	1.621	1.798	1.773
<i>Imports of goods</i>	1.491	1.801	2.369	2.805	2.736
-Net services	362	302	327	251	320
-Net income	14	33	49	48	-45
-Net current transfers	54	74	68	75	87
- of which: government transfers	27	40	29	37	57
- FDI (net) inflows	136	301	460	318	335

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	-2,9	-1,3	1,8	0,1	-3,9

Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	12,3	10,2	10,6	15,6	21.2 E
	as % of exports				
Gross foreign debt of the whole economy	26,2	20,1	20,8	30,4	45.4 E
Monetary aggregates	in 1000 Mio ECU/euro				
- M1	0,5	0,6	0,8	0,9	1,0
- M2	0,5	0,6	0,9	1,0	1,2
Total credit	0,5	0,5	0,7	1,0	1,3
Average short-term interest rates	% per annum				
- Lending rate	28,3	19,1	15,1	13,1	14,2
- Deposit rate	14,8	11,7	5,9	5,3	5,0
ECU exchange rates	(1ECU/euro=...Lats)				
- Average of period	0,690	0,700	0,659	0,660	0,624
- End of period	0,703	0,696	0,657	0,669	0,586
	Dec. 1993=100				
- Effective exchange rate index	194,0	198,8	180,0	203,8	287,7
Reserve assets	Mio ECU/euro				
- Reserve assets (including gold)	458	595	703	686	907
- Reserve assets (excluding gold)	385	522	638	624	836

External trade	Mio ECU/euro				
Balance	-394	-691	-926	-1.230	-1.148
Exports	998	1136	1474	1.619	1.616
Imports	1.392	1.827	2.400	2.849	2.764
	previous year=100				
Terms of trade	:	:	:	:	
	as % of total				
Exports with EC-15	44,0	44,7	48,9	56,6	62,5
Imports with EC-15	49,9	49,2	53,2	55,3	54,5

²¹ Source: United Nations

Demography	per 1000 of population				
Natural growth rate	-6,9	-5,9	-6,0	-6,5	-5,5
Net migration rate (including corrections)	-4,2	-2,9	-2,7	-1,3	-0,7
	per 1000 live-births				
Infant mortality rate	18,8	15,9	15,3	15,0	11,3
Life expectancy :	at birth				
Males:	60,8	63,9	64,2	64,1	64,9
Females:	73,1	75,6	75,9	75,5	76,2

Labour market (ILO methodology)	% of labour force				
Economic activity rate	67,6	59,8	59,7	58,8	58,2
Unemployment rate, total	18,9	18,3	14,4	13,8	14,5
Unemployment rate of persons < 25 years	30,1	29,0	24,9	25,5	24,6
Unemployment rate of persons >= 25 years	17,0	16,6	12,9	12,1	13,0
Average employment by NACE branches	in % of total				
- Agriculture and forestry	17,4	17,9	20,6	18,8	15,3
- Industry (excluding construction)	23,1	20,8	21,4	20,7	20,1
- Construction	5,0	5,9	5,4	5,5	5,9
- Services	54,6	55,4	52,6	55,0	58,7

Infrastructure	in km per 1000 km²				
Railway network	37	37	37	37	37
	km				
Length of motorways	0	0	0	0	0

Industry and agriculture	previous year=100				
Sales of industrial production volume indices	96,3	105,5	113,8	103,1	91.2 P
Gross agricultural production volume indices (in prices 1993)	93	94	100,2	89	87 P

Standard of living	per 1000 inhabitants				
Number of cars	133	153	176	198	217
Telephone subscribers	289	302	314	336	343
Number of Internet connections ²²	:	:	:	3,4	:

P= provisional figures E= estimates

²² Source: United Nations

Methodological Notes

Inflation

Consumer price inflation: the EU Member States have designed a new consumer price index in order to comply with the obligations of the EC Treaty, as 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 (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs which are based on national CPIs but adapted to the HICP coverage. Since 1999 the data in the table are these proxy HICPs. Reliable and comparable HICPs are expected to be available in CCs from January 2001 onwards.

Finance

Note on sources:

General government deficit / surplus: Candidate Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (see explanation below).

Gross foreign debt: the OECD External Debt Statistics publication has been used as the source. Data for 1999 are estimates.

Foreign official reserves, monetary aggregates, interest rates, and effective exchange rates: where possible, Eurostat's reporting form for Candidate Countries is used. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source.

Exchange rates: against the ECU (euro), the European Commission data is used for ECU rates, European Central Bank for euro rates.

Note on methodology:

General government deficit / surplus: 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.

Gross foreign debt: of the whole economy, and includes both short- and long-term debt. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used.

Monetary aggregates: end-year stock data. M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term

claims on banks. Total credit 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.

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: ECU exchange rates are those that were officially notified to the European Commission DG ECFIN until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank, where available. The effective exchange rate index (nominal) is weighted by major trading partners, and calculated on a base period of 1995 (annual average), on the case of Latvia (December 1993).

Reserve assets: 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.

External trade

Imports and exports (current prices): the data is based upon the special trade system, according to which; external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). The term FOB means that all costs incurred in course of transport up to the customs frontier are charged to the seller. The term CIF means that the purchaser pays the additional costs.

Trade Classifications: merchandise trade flows are using the commodity classification according to the Combined Nomenclature. Imports are recorded on CIF basis. Exports are recorded here on FOB basis.

External trade price indices: export unit value index is calculated using two sources of information for index calculation: the main source is customs data and other is a price data collected from manufacturing enterprises that export their products. The index is calculated according to a Laspeyre's type formula. The base price (the average price of the previous year) is calculated as the weighted average price of the previous year.

Imports and exports with EC-15: data declared by the Republic of Latvia.

Demography

Net migration: 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).

Labour force

Economic activity rate (ILO Methodology): according to the Labour Force Survey (LFS). The economic activity rate represents the labour force as a percentage of population at working age (15 years or more), where:

- Labour force: employed and unemployed persons (according to the ILO definitions).
- 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, self – employed or unpaid family workers. Members of armed forces and women on child-care leave are included.
- The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:
 - (i) have no work,
 - (ii) are actively seeking a job 4 weeks and,
 - (iii) are ready to take up a job within a fortnight.

Unemployment rate (by ILO methodology): data from November 1995 LFS monitors the population aged 15-69. Data from May and November 1996 LFS monitors the population aged 15 years and over. LFS excludes persons on compulsory military service and persons living in non-private households. Employees on maternity leave and child care until 3 months are excluded. Data covering the period from 1995 to 1999 refer to November in each year.

Average employment by NACE branches. LFS November of each year. All employed persons including self-employed. Persons in compulsory military service and employees on childcare from 3 months to 3 years are excluded.

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

Gross agricultural production volume indices: *calculated in constant prices of 1993. The quarter indices are calculation on the basis of the previous quarter.*

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: number of telephones switched on to the public telecommunication network including extensions.

Sources

Total area, infrastructure, industry and agriculture, external trade, labour market, demography: **National sources.**

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