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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 Slovenia 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 Slovenia’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 Slovenia’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 Slovenia in translating the *acquis* into its official language.

In line with previous regular reports, the present report:

- describes the relations between Slovenia and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Slovenia’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Slovenia’s capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety, as underlined by the Cologne and Helsinki European Councils. It encompasses not only

the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as 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 Slovenia in preparing for accession.

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

The report contains also a separate section examining the extent to which Slovenia 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

¹ For the European Parliament the *rapporteur* is Claudio Martelli.

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 Slovenia

Recent developments under the Association Agreement (including bilateral trade)

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

The second meeting of the Association Committee took place in Brussels in April 2000 and the second meeting of the Association Council was in Luxembourg in June 2000. The system of subcommittees continued to function as a forum for technical discussions. All together, eight subcommittee meetings took place between October 1999 and July 2000.

The fourth session of the Joint Parliamentary Committee between the Slovenian National Assembly and the European Parliament took place in March 2000 in Brussels. The fifth session was held in July 2000 in Ljubljana.

In 1999, EC exports to Slovenia amounted to € 6.7 billion and Slovenian exports to the EC to € 5.2 billion. Slovenia thus had a trade deficit of € 1.5 billion with the EC. This represents a decrease of 0.6% in both EC imports and exports as compared to 1998. In 1999, the EC accounted for 66 % of total Slovenian exports, and for 69 % of total Slovenian imports. Slovenia's exports to the EC consisted mainly of machinery and electrical equipment (23% of the total), transport equipment (18% of the total) and base metals (12% of the total). The EC's exports to Slovenia consisted mainly of machinery and electrical equipment (26% of the total), transport equipment (16% of the total) and base metals (11% of total).

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 reaching a fair equilibrium between the interests of the European Community, the EU Member States and those of Slovenia. The negotiations have been based on the principle of neutrality with respect to the functioning of the CAP.

The negotiations with Slovenia were concluded between negotiators in May 2000. As a consequence, approximately 73% of EC imports and 17% of EC exports of agricultural products will be liberalised. However, no agreement could be reached on reciprocal concessions under the "double zero" approach (reciprocal elimination of export refunds as well as elimination of import tariffs within the framework of tariff quotas for certain sectors). The regime entered into force on 1 July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement.

Negotiations in the field of processed agricultural products were concluded on a technical level in October 1999. The provisions will enter into force once the necessary procedures have been finalised. The negotiations on an agreement on wine and spirits were concluded in September 2000.

Slovenia has not yet started negotiations to conclude a PECA (Protocol on European Conformity Assessment) but is at an advanced stage of preparatory talks.

There are no anti-dumping measures in force against imports from Slovenia.

Accession Partnership / National Programme for the Adoption of the Acquis

The implementation of the revised Accession Partnership adopted in December 1999 continued. Its implementation is reviewed in chapter D of this Report.

In April 2000, Slovenia presented a revised National Programme for the Adoption of the *Acquis* (NPAA), in which it outlines a revised strategy for accession including how to achieve the priorities contained in the Accession Partnership (see Chapter D).

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; **ISPA**, which finances infrastructure projects in the fields of environment and transport; and **SAPARD** which provides aid for agriculture and rural development. 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 the basic total financial assistance to Slovenia will amount annually to € 25 million from Phare, € 6.4 million from SAPARD and € 10.8-21.7 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” and the remaining 70% is used for financing investments.

The Phare programme allocated Slovenia with commitments of € 192 million during the period 1992-1999 and **€ 25 million** in 2000.

The 2000 Phare Programme for Slovenia consists of an allocation of **€19 million** for the National Programme, concentrated on the following priorities:

- strengthening of the administrative and institutional capacity in the field of liberalisation and regulation of the energy market, including trade in electricity (€ 0.5 million);
- preparation of labour market indicators and alignment of statistics in the areas of regional agriculture and the structure of earnings (€ 1.1 million);
- implementation of new laws in the area of freedom of movement of goods (€ 2 million);
- support for economic and social cohesion in the areas of SME investments and job creation in the regions of Pomurje, Savinska and Zasavje (€ 5 million);
- improving security on the future external border and drugs (€ 6.1 million, with a further € 1 million from a special Drugs Programme), and
- participation in various Community Programmes (€ 3.3 million). A further € 4.4 million is proposed from outside the National Programme.

A Supplementary Investment Facility is also being implemented through the National Programme. The Phare contribution is € 2.6 million towards a Waste Water Treatment Plant in Slovenska Bistrica.

An indicative amount of € 7 million a year for the three years 2000-2002 has been allocated for cross-border co-operation programmes with neighbouring countries from within the Phare Programme for Slovenia. There will be a Phare contribution of € 5 million to a programme with Austria for the years 2000-2001 which will be decided on in 2000. There will be a similar contribution of € 5 million to a programme with Italy for the same period. € 2 million is the Phare contribution to a programme on the border with Hungary foreseen in 2000.

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

Furthermore, in the year 2000 Slovenia is participating in the following Community programmes: Socrates, Leonardo da Vinci, Youth for Europe, 5th Framework Programme for R&D, Third Multi-Annual Programme for SMEs, Health Promotion, Combating Cancer, Aids Prevention, Drug Dependence, Equal Opportunities and Fiscalis. In addition, Slovenia has expressed its interest to participate in the Culture 2000 programme.

Following the opening of negotiations regarding Slovenia'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, Slovenia will become a member of the Agency.

Phare has played a particularly important role in:

- The energy sector, where Phare co-financed with the Slovenian Government an Energy Saving Fund Scheme (ESF) which was channelled through a commercial bank selected by public tender and contributing commercial money to the scheme. Blending zero interest rate Phare funds with commercial money and subsidising the interest rate using Slovenian funds, the ESF has been able to offer loans at attractive rates for investments in energy efficiency measures. To date, the ESF has provided 22 loans to industries and municipalities for a total amount of € 6 Million. Each loan consists of 17% Phare funds and the rest is commercial money. The Phare contribution was € 2 million.

- The trade sector, where Phare assistance contributed to the strengthening of the Trade and Investment Promotion Office (TIPO) which is supporting Slovenian exporters and promoting Slovenia with foreign investors. As for Foreign Direct Investment (FDI), marketing activities have been carried out in four EU countries. The activities resulted in at least one case of FDI worth € 50 million that generated 500 new jobs. Since February 2000 the Government has taken steps to support FDI, including the introduction of an ‘Investment Co-sharing Grant Scheme’, which provides for the sharing of costs under an eligible investment project. The scheme was effectively reviewed with the help of the Phare project. There was co-financing of € 500,000.
- The social sector, where Phare assistance of € 700,000 contributed (among other things) to preparing the Slovenian partners for future participation in the European Social Fund and to an active employment policy. Phare provided support for local employment initiative projects with the establishment of an effective financial infrastructure and assistance in the elaboration of the national strategy. Five integrated development plans for 5 regions were created, and a fully equipped Information Research Resources Centre with fully trained staff was established in Celje. Seventy different projects had been facilitated in the regions and a total of 6 partnership programmes had been established by the end of the project.

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.

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

Nonetheless, the **programming process and individual project development** requires further work in Slovenia if quality is to reach the level required for effective use of the Structural Funds after accession. This is particularly the case for projects in the area of Economic and Social Cohesion and Cross Border Co-operation. Given this weakness, it is disappointing that €1.7 million remains to be contracted from the Special Preparatory Programme for the Structural Funds approved in 1998 and that nothing has been contracted under the €2 million Project Preparation Facility approved in 1999. However, this is the key to future programming.

The Slovenian Rural Development Plan, which provides the basis for the use of **SAPARD** pre-accession aid, got a favourable opinion in the STAR Committee (EC Management Committee on agricultural structures and rural development) in September 2000. The plan is in the process of being adopted by the Commission.

The plan is based on two major priorities: improvement of production and marketing structures in agriculture and food processing (75% of the EC funds) and economic diversification and improvement of rural infrastructure (24% of EC funds).

The average annual public expenditure will amount to € 9.9 million during the period 2000-2006, of which € 6.4 million (at 2000 prices) represents the Community contribution.

The Agency of the Republic of Slovenia for Agricultural Markets and Rural Development has been established and has been accredited as the SAPARD Agency by the relevant national authorities in October 2000. The accreditation will need to be reviewed and approved by the Commission.

Concerning **ISPA**, in October 1999 Slovenia submitted to the Commission the strategies for the Environment and Transport for 2000-2006. A revised version of the Environmental strategy was submitted. Two project proposals for financing in 2000 have been adopted by the Commission. One project concerns the modernisation of certain railway sections and the other technical assistance. The annual allocation foreseen lies between €10.8 and €21.7 million.

Implementation of the ISPA project will follow the same institutional framework as for the Phare programme, with the National Fund in the Ministry of Finance being in charge of the overall financial management and an implementing agency 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 long-term secondment of civil servants and accompanying short-term 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*.

In the first and second rounds of twinning relating to projects decided on under the National Programmes for 1997 and 1998 ten twinning projects were adopted. These are in the areas of agriculture, finance, and justice and home affairs, a wider field including a project on health and safety at work and equal opportunities and support for strengthening of labour market organisations. In 1999 a further fourteen projects approved under the National Programme were proposed for twinning. There are some new fields of activity in addition to those already mentioned: internal market, financial

control, external audit and public expenditure management, real estate management, crime prevention, telecommunications and state aids. In 2000 seven twinning projects were foreseen for implementation of the Phare National Programme including the areas of Economic and Social Cohesion, liberalisation and regulation of the Energy Market, Statistics and Drugs.

Statistics show that a considerable range of Member States are involved. The Member States' involvement in twinning allows Slovenia to benefit from the variety of administrative models and cultures in the European Union.

Negotiations / screening

The analytical examination of the *acquis* (screening) for Slovenia started in April 1998 and concluded in Autumn 1999 with the examination of the agricultural chapter. An updated screening exercise started in February 2000 to cover the new *acquis* up to January 1 2000.

Since the opening of the accession negotiations in March 1998, Slovenia has participated in four rounds of ministerial negotiations. As a result of these negotiations, 12 chapters have been provisionally closed (company law, fisheries, EMU, statistics, industry policy, SMEs, science and research, education and training, telecommunications and IT, consumer and health protection, CFSP, financial control), while negotiations continue for the remaining chapters.

B. Criteria for membership

1. Political criteria

Introduction

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

In its 1999 Regular Report on Slovenia, the Commission concluded that:

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

The section below aims to provide an assessment of developments in Slovenia 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 Slovenia’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Slovenia’s ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Cooperation in the field of justice and home affairs*) of part *B.3.1.* of this report.

Recent developments

The centrist coalition government, which had been in power since February 1997, lost a vote of confidence in the Parliament in April 2000. The Coalition fell as one of the three parties in it left the government in order to merge with another party.

A new coalition government holding 44 of the 90 seats in the parliament was approved by the Parliament on June 7. European issues and EU membership were identified as one of the main priorities of the government.

New parliamentary elections took place on October 15. The previous elections were held in 1996 and according to the Constitution, elections have to be held every four years. The centre-left Liberal Democratic Party emerged as the largest party in the Parliament, however, the composition of the new government was not known at the time of issuing of this report.

1.1. Democracy and the Rule of Law

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

The Parliament

Although the parliament continued to operate smoothly during the past year, the legislative process is still slow and no progress has been made in streamlining the

parliamentary process. Every law still needs three 'readings' in the Parliament and draft legislative proposals are dealt with by the parliament in the order of their arrival. This ensures that all political forces in the parliament can provide input into the legislative drafting process, but it can also lead to delays in handling the government's proposals.

However, EU-related laws continue to be treated with priority in the parliament and extraordinary sessions have been introduced to speed up their adoption. Most of them were adopted by accelerated procedure (ie three readings are held within one or a few days).

Due to difficulties in obtaining a 2/3 majority, no progress was made in the adoption of a new Parliament Standing Order, which would provide a new parliamentary procedure and shorten the current three-reading procedure. In addition, an attempt to change the current standing order by limiting the speaking time of parliamentarians failed to obtain the required 2/3 majority.

In July the Parliament decided by 2/3 majority to confirm the present proportional electoral system, to increase the threshold from 3% to 4%, to suspend national election lists and to include these provisions into the Constitution. The Parliament's decision to change the Constitution is intended to conclude a controversial debate on the voting system dating back to a referendum held on the subject in 1996, the result of which was disputed.

The process of appointment of the new government in May / June this year revealed that the rules of the Parliament and the Constitution contained a number of unclear provisions, allowing different legal interpretations. In May 2000, the Parliament amended the rules for the appointment of government by changing a secret ballot on the list of ministerial candidates into an open one. The draft Law on Government, submitted to the Parliament in August, and related draft amendments to the Constitution, foresee the simplification of the procedures for appointment of a government.

The Executive

The 1999 Regular Report drew attention to the need for convincing progress on overall public administration reform. This – including the introduction of a civil service law -has also been identified as a short-term priority in the Accession Partnership. Only limited progress has been made in this regard since the last Regular Report.

The draft Law on Public Agencies and the draft Law on Government were submitted to the parliament in August 2000, but remain to be adopted. The Law on Civil Servants, for its part, has not yet been submitted to the parliamentary procedure. Serious efforts are required, as a matter of priority, to ensure that this crucial framework legislation is put in place, as a prerequisite for a professional, impartial, efficient and effective civil service.

Some progress in public administration reform has been registered, through the adoption of the Law on General Administrative Procedures in September 1999. It defines *inter alia* the applicable procedures and the competences of the state and local self-governing organs. However, according to the Slovenian Ombudsman, despite this new law no progress has so far been made in better defining and protecting the rights, benefits and obligations of the individual in relation to the public administration. An amendment to the law aiming at improving the protection of individual and social rights was adopted in July. Remaining problems include the implementation of administrative supervision and the long processing times.

The Directorate for Organisation and Development of the Administration within the Ministry of the Interior is responsible for public administrative reform in Slovenia. It has a staff of four people. The Ministry also has an Academy for Administration offering training to civil servants with a staff of 26 people and over 100 non-resident lecturers. A government training strategy for public administration was adopted in August 2000. Its aim is to improve the capacity of the Slovenian administration to implement the *acquis* through training on EU related issues.

The whole public administration comprises approx. 18,000 staff of which 3,200 are in the decentralised administrative units of the government. The government Employment Programme and the revised NPAA indicate a need for further recruitment. There is no regional level of administration in Slovenia, as establishment of regions can, according to the Constitution, take place only on the basis of voluntary initiative by municipalities.

Municipal elections were held in Koper on 5 December 1999, one year after municipal elections elsewhere in Slovenia. The delay resulted from a Constitutional Court decision in 1998 ruling that the Koper municipality had to be divided into two because of its mixed urban and rural character. The Parliament still needs to pass a law to reshape the municipality according to the Constitutional Court's ruling.

The judicial system

The excessive duration of court procedures continues to be a problem in Slovenia. However, some progress has been made with regard to judicial reform and in reducing the backlog of pending court cases.

Since the previous Regular Report, the government and the Supreme Court have introduced a range of measures to reduce the backlog of pending court cases. These include efficiency-enhancement programmes involving the internal reorganisation of courts, special solutions for group law suits, longer working hours, and special financial incentives for increasing productivity of courts. Furthermore, through the Law amending the Law on Courts – adopted in March 2000 – the possibility has been created to appoint special "rotating judges" in districts to assist local courts in coping with increased caseloads. The amended law also gives the presidents of courts greater powers in re-organising courts and their working procedures, and requires them to produce a programme for reducing the backlog of cases if this is very high. The Law amending the General Offences Law – adopted in March 2000 – should equally contribute to decreasing court delays, by introducing a system of minor offences with monetary penalties and a system of warnings instead of prosecution.

Also, several government/ministerial decrees concerning the number of personnel in courts, an increase in the salaries within judicial organs, and the work of independent judicial officers have been adopted. 50 independent judicial officers (or bailiffs) have been appointed by the Ministry of Justice and have started their work on implementing court rulings on civil matters.

While it is still early to fully assess the effectiveness of these measures, the number of pending court cases has now started to decrease. The 1999 Regular Report noted that there were 566,000 pending court cases in June 1999. In June 2000, government figures put the number at 536,477 (158,967 land registry cases, 185,955 cases related to execution of court verdicts, and 191,555 other cases). According to the Supreme Court, the real backlog of cases older than one year amounts to 100,410.

Nonetheless, in a few courts a significant problem of backlogs persisted. Also, the duration of the judicial procedure in criminal cases did not show significant changes in 1999 as compared with the previous year. 50% of the cases take more than a year. The judicial procedure for 26% of the civil cases takes more than three years.

The Law on the Enforcement of Penal Sanctions was adopted in February 2000. The law regulates the principles of enforcing sanctions issued by courts in penal procedures. The law also guarantees basic rights to convicts.

As regards the training of judges, the Judiciary Training centre, established in 1997, provides training in European Law.

There were 167,429 pending land register cases in July. The number has increased this year as a result of legislative changes that have triggered an increase in applications for land registry entries. A computerised land register was set up in January 2000 and computerisation should be finished by 2004. As a result, the waiting period for registrations will be reduced significantly.

Anti-corruption measures

According to the available statistics and reports, problems of corruption are relatively limited in Slovenia.

In 1999 the government set up a legal framework for anti-corruption measures, although no specific anti-corruption programme has been adopted. Specific bodies to fight corruption have been created, including special anti-corruption units in the police, an Organised Crime Section in the Ministry of the Interior and a group of public prosecutors for special assignments.

Slovenia ratified the Council of Europe Criminal Law Convention on Corruption in February. The Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime had already been ratified in 1998. The OECD Convention on Bribery and the Council of Europe Civil Law Convention on Corruption are still in the ratification process (see also *Chapter 24 – Co-operation in the field of justice and home affairs*).

1.2. Human rights and the protection of minorities

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

Slovenia has already ratified the major international human rights instruments (see annex).

Civil and political rights

The Ombudsman for Human Rights continued to carry out his work effectively and remains an important institution for safeguarding human rights. The number of complaints to the Ombudsman remained at the same level as the previous year (about 3,400). As before, the majority of cases concern the length of court and police proceedings (28%) as well as administrative issues (19%). The Ombudsman identifies the implementation of the Denationalisation Act as a particular problem.

As set out in the 1999 Regular Report, the process of *denationalisation* (the process of returning property to persons dispossessed by the Communist regime) remains very slow and limited progress has been achieved over the past year. The process of denationalisation is based on the Denationalisation Act of 1991. The Ministry of Justice has been requested to establish binding interpretations of the law in order to speed up the process and to ensure that there are no differences in this respect in the different parts of the administration. The government also earmarked additional funds for speeding up the administrative procedures in October 1999. The use of these funds started in June 2000. By the end of April 2000, a decision had been made on 40% of claims on agricultural land (the corresponding figure on June 30 1999 was 35%), on 60% of claims on forests (56%), on 65% of claims on dwelling units (58%), on 69% of business premises (63%), 39% of building plots (36%), 56% of enterprises (51%) and 37% of movable property (33%). These figures refer to the size of the property (in square metres) and only to the decisions taken – not decisions implemented. The Slovenian Human Rights Ombudsman has criticised the inadequate and vague legal provisions for denationalisation, the large number of amendments to the law, the temporary suspension of the law in the mid 1990's (pending a revision ordered by the Constitutional Court), inconsistencies with other newly adopted legislation, delays in the adoption of implementing legislation, and insufficient administrative capacity of the relevant bodies. In 1999 a working group on denationalisation was established, comprising representatives of the relevant ministries and an organisation representing former owners of expropriated property (SAFOEP).

The law on regularisation of the *status of citizens of former Yugoslav republics* entered into force in September 1999. Persons who have lived in Slovenia without interruption and have no criminal record can obtain permanent residence. Over 13,000 applications have been received and the procedure is foreseen to be finished by the end of 2000. So far only 0,36% of applications have been rejected. The temporary refugee status of refugees from Kosovo (totalling about 1,100 persons) expired in May this year and they were given until the end of June to leave the country voluntarily. The UNHCR and NGOs have expressed concern about the continued temporary protection status for persons from Bosnia and Herzegovina, which some have had for a period up to eight years, and the very limited number of approved asylum applications. The temporary status does not give these people the right to work or to receive education.

The legal basis of *asylum* in Slovenia is the Law on Asylum adopted in July 1999, which is considered to be in line with the *acquis*. Slovenia adopted a National Action Plan on Asylum in April this year identifying several areas in which improvement should be made (for details see *Chapter 24 – Co-operation in the field of justice and home affairs*). Slovenia has made good progress in this area but should continue its efforts.

No serious violations of human rights and fundamental freedoms have been reported in Slovenian *prisons* but they remain overcrowded. This has resulted in lack of privacy, and degrading health, hygiene and treatment conditions. The law on the implementation of penal sanctions was adopted in February this year. According to the Criminal Procedure Act, the Human Rights Ombudsman may visit a detainee and correspond with him/her without prior notice.

Amnesty International has expressed concern over an increase in *police brutality* in the first half of this year – it is still investigating the issue. The Law on the Police gives the police relatively wide powers, which have to be balanced by appropriate supervisory mechanisms. A complaints procedure concerning individual complaints on possible police abuses was introduced in April as foreseen in the Law on the Police.

The societies act provides the legal framework for *NGOs* – however, there are no legal provisions for their funding, or tax exemptions for charities.

Article 41 of the Constitution guarantees the Freedom of conscience and *rights of religious communities* continue to be well protected.

There are no restrictions to *freedom of expression* (such as censorship) in Slovenia. The media is pluralist and represents a variety of political opinions. Amendments to the law on printed media concerning public financial support to small printed media covering political issues are in parliamentary procedure. These will serve to support political pluralism in printed media.

According to Annex XIII of the Europe Agreement, EU citizens have the *right to buy property* in Slovenia if they have resided in Slovenia for three years. Since the entry into force of the related provisions in early 1999, 53 applications have been submitted, and on 19 of these a decision has been made. Seven of the decisions were positive.

Economic, social and cultural rights

As regards *equal opportunities*, as indicated in last year's Regular Report, the equality of men and women is guaranteed by the Constitution, and a Women's Policy Office is in charge of issues related to equal opportunities. The UN has noted that the representation of women in the most senior positions in the economy and politics remains modest. The situation concerning the differences in pay is comparable to the rest of the EU. New legislation has been adopted concerning equal treatment of men and women in occupational social security schemes. Slovenia has signed the Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women.

The constitution guarantees *children's rights*.

The *rights of disabled* people are guaranteed in the Constitution and a Government Office for the Disabled has been set up. The most protected category of the disabled is the war victims, notwithstanding the fact that those disabled since birth are most vulnerable. By international standards protection is average. Challenges include measures to secure employment, and allocation of resources to the most needy. In March the government adopted a National Social Assistance and Services Protection Programme addressing some of these concerns.

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

Slovenia ratified *the European Social Charter* in April 1999. The Council of Europe is assisting Slovenia in starting the implementation of the Charter and in preparing its first report.

Minority rights and the protection of minorities

Most of the international legislation in this field has been ratified. Minorities are represented in the Government Commission for Nationalities / the Commission for the Roma.

The special status of the Roma community is guaranteed in the Constitution, which foresees (Article 65) the adoption of a special law for protection of the Roma. Such a law has not been adopted yet, but the rights of the Roma community are covered in various sectoral laws, such as the Law on local self-government, the Law on local elections, and the Law on organisation and financing of education. The government adopted a Special Programme on Equal Opportunities of Employment for the Roma in May. The situation of the Roma (6,500-7,000 people) is on the whole satisfactory, but there is a need for policies promoting Roma socio-economic integration, especially in the areas of employment and health. Sustained efforts are also required in the area of education. The provisions in the law on local self-government that enable the political representation of the Roma have not been realised fully. The main reason is that many Roma have not registered and the total number of registered Roma therefore stays under the legislative limit.

1.3. General evaluation

Slovenia continues to fulfil the Copenhagen political criteria.

Progress has been made in judicial reform, which is a medium term priority in the Accession Partnership. However, it is still too early to assess the effectiveness of the new measures aimed at reducing the backlog of pending court cases.

Public administration reform is another area requiring attention. Little progress has been achieved in this respect since the last Regular Report as important pieces of legislation which are to provide the basis for reform have not yet been adopted. This area is a short-term priority in the Accession Partnership.

The denationalisation process remains slow and further efforts are needed to speed it up.

2. Economic criteria

2.1. Introduction

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

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

This finding was confirmed in the 1998 and 1999 regular reports. In its 1999 regular report, the Commission found that

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

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

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

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

2.2. Economic developments

The macroeconomic situation in Slovenia has remained stable in 1999 and during the first half of 2000. GDP growth, fuelled by domestic demand and rapid export growth, exceeded expectations. The increase in economic activity in the EU has contributed to this development. Higher domestic demand, due to acceleration of investment and to consumer spending in anticipation of the introduction of VAT, resulted in a deterioration of the current account deficit to the highest level in a decade. The deficit is still relatively modest, although the current low inflows of foreign direct investment raise an issue of its medium term sustainability. Inflation remained under control in 1999, but high oil prices and accelerated nominal depreciation, combined with widespread use of indexation, have pushed up prices in early 2000. Fiscal performance remained sound in 1999 and the introduction of the VAT reform was a success.

Slovenia		1996	1997	1998	1999	2000 latest
Real GDP growth rate	per cent	3.5	4.6	3.8	4.9	4.9 Jan-June
Inflation rate ²						
- annual average	per cent	9.9	8.3	7.9	6.1	8.9 ³ Sept
- December-on-December	per cent	9.0	8.8	6.4	8.1	9.8 Sept
Unemployment rate, end-year						
- ILO definition	per cent	7.3	7.4	7.9	7.6	7.2 April-June
General government budget balance	per cent of GDP	0.3	-1.2	-0.8	-0.6	:
Current account balance	per cent of GDP	0.1	0.2	-0.0	-2.9	:
	million €	13	26	-3	-545	:
Foreign debt						
- debt export ratio	per cent	34.3	33.4	35.9	54.0 E	:
- gross foreign debt	million €	2,838	3,061	3,553	5,324 E	:
Foreign direct investment in flow						
- balance of payments data	per cent of GDP	1.4	2.6	1.0	0.4	:
	million €	210	414	178	78	:

E = Estimates

Progress on structural reforms has been slow. Only few of the enterprises transferred to the Slovene Development Corporation have been divested. Two important laws on the insurance sector were adopted in January 2000. They pave the way for ownership transformation in the sector and grant the right of establishment to foreign companies. The privatisation process in the financial sector made only little progress. Domination by two state-owned banks and little foreign competition continue to characterise the sector. The lack of major privatisations has kept foreign direct investment inflows low in 1999 and early 2000.

2 PROXY HICP since 1996 (see methodological notes)

3 Moving 12 month average rate of change.

Main indicators of Economic Structure in 1999		
Population (average)	thousand	1,986
GDP per head ⁴	PPS-€	14,964
	Per cent of EU average	71
Share of agriculture ⁵ in:		
- gross value added	per cent	3.6
- employment	per cent	10.2
Investment-to-GDP ratio ⁶	per cent	26.9
Gross foreign debt/GDP ⁷	per cent	28.5
Exports of goods & services/GDP	per cent	52.7
Stock of foreign direct investment	million €	2,491
	€ per head	1,255
End of 1999 data - Eurostat		

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

There is a well-established political consensus on the need to pursue the agenda of structural reforms in preparation for EU membership. While this has allowed steady progress on framework legislation, implementation has sometimes fallen behind. Delays have occurred in such important fields as increasing competition in the banking sector,

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.

liberalisation of the telecommunications sector, restructuring of enterprises in economically depressed areas, and labour market reform. In some cases the reform content has been watered down and needs further amendments to establish long term budgetary balance. Pensions reform are one area where a deepening of the reform will be necessary in due course. There is good co-ordination between policy departments, and the economic agency plays an important role in the policy development process.

GDP growth of 4.9% in 1999 was higher than expected and has continued into 2000. Growth was driven by investment, private consumption and - from early 2000 - increasing exports. Apart from these factors, the strong growth figure may also be partly linked to the replacement of sales taxes by VAT, which appears to have acted as an incentive to register previously grey economy activities.

Total employment decreased slightly, while the average unemployment rate (ILO) fell from 7.9% in 1998 to 7.6% in 1999. However, its long-term unemployment component increased to 63%. Persistent long-term unemployment particularly affects mid-aged workers with few skills. There is at the same time a strong and partly unsatisfied demand for young and highly educated staff with market-oriented skills. The Government has formulated its strategic objectives for the labour market in the National employment action plan for the years 2000 and 2001. The Employment Relationship Act, submitted in 1997, is still under discussion in Parliament. When approved, it would constitute a new framework for individual labour relations and remove some rigidities. However, the problem of the high costs of dismissing workers is likely to remain

Inflation has recently accelerated. CPI inflation increased from 6.4% at the end of 1998 to 8.1% in December 1999, and is now approaching double digits. Core inflation remained stable at around 5% in 1999, not least due to an agreement between the social partners which ensured that the introduction of VAT in 1999 did not immediately fuel inflation through the indexation mechanism. However, core inflation increased in the first half of 2000 due to indirect effects of high oil prices and increases of administered prices working their way through the widespread indexation of wages and pensions.

Increasing inflation and deterioration of the current account led the Bank of Slovenia to adjust its monetary policy. While the 1999 monetary policy objective of the Bank of Slovenia was to keep the expansion of broad money (M3) between 16% and 24%, in order to accommodate growth without an increase in core inflation, M3 growth will be restricted to between 12% and 18% in 2000. The real effective exchange rate (CPI weighted) declined 2.3% in 1999, and an increased pace of nominal depreciation characterised the first half of 2000. This could be linked to an attempt by the central bank to reduce the current account deficit. However, the weakening of the currency also generates additional inflationary pressures.

The lack of competition in financial markets has limited the efficiency of monetary policy instruments. It is, as a consequence, difficult for the Bank of Slovenia to influence economic developments by setting short-term interest rates. In order to deal with such shortcomings, a new agreement with the 'Club of Banks' was made in April 2000, with the aim of improving the efficiency of intervention on the foreign exchange market. Such an agreement can clearly not be a long-term solution and there remains a need to improve competition in all parts of the financial markets.

In 1999 the deficit was 0.6 % of GDP, confirming the downward trend from 0.8% in 1998 and 1.2% in 1997. This result is due to a well-managed and careful fiscal policy

throughout the transition period. In general, the budget is characterised by a high level of non-discretionary expenditure. In combination with the high taxation level, this leaves little flexibility for responding to external shocks. This is a reason for concern in the light of the additional budgetary needs to prepare for EU accession (administrative capacity, environment etc). A multi-annual approach to the budgetary framework is being launched to respond to this concern. Public debt is still low at 24.6% of GDP (end 1999) but increasing. More than half is domestic debt. The low level of public debt has so far kept debt servicing at a low level of only 1.4% of GDP. As a consequence, the fiscal risk associated with the present level of public debt is low.

Pension reform has started with a new Law on Pension and Disability Insurance adopted in December 1999, which came into force on 1 January 2000. The reform represents a first step towards achieving long-term budgetary sustainability by modifying the pay-as-you-go system. The compromise solution follows two years of negotiations within the coalition and with social partners. The implementation will be gradual and involves an increase in the average retirement age and a new - and less generous - method for the adjustment of pensions. A supplementary second pillar pension and disability insurance will also be established. While the aim is to contain expenditures at the present level, a deepening of the reform will be needed to attain the objective of long-term financial sustainability of the pension system. In 2000, the Pension Fund deficit is expected to worsen to 0.9% of GDP.

The current account deficit increased to 2.9% of GDP (€ 545 million) in 1999. In euro terms, exports of goods decreased by 0.5% and imports rose by 4.1%. Imports rose as a result of the strong demand for consumer goods in the first half of 1999 and stronger demand for intermediate goods in the second half. The current account deficit had to be almost fully financed by debt creating capital inflows as foreign direct investment totalled only € 38 million. If this situation is not improved, the effect on the debt stock could be problematic in the medium term.

The state still has influence in a considerable number of enterprises. The private sector share in the economy is estimated at 57.1% (1998) of Gross Value Added. The Capital, Health and Compensation Funds have non-controlling shareholdings in large segments of the economy. A feature of ownership transfer in Slovenia was that a part of the shares of transferred enterprises (often 10% or more) was given to the social funds to enable them to meet future commitments. While this does not give the state a controlling stake in enterprises, there is a risk of it influencing decision-making in private enterprises. The Slovene Development Corporation has an increasingly unclear role as it maintains a large number of enterprises in its portfolio with only slow progress in restructuring and divestment. A new management team was appointed recently and it is planned to speed up the divestment process in 2000 including offering assets to foreign investors.

The share of administered prices in CPI stabilised around 14% in 1999. Due to a new weighting of CPI the share decreased further to 13.7% in early 2000. The price controls concern mainly energy, community services, public transport and basic communication services, and some basic food items (milk). In April and September 2000, changes in the model for setting prices for gasoline products established a more direct link between changes in world market prices and Slovenian retail prices for petrol products, but price formation continues to be under Government control. Pricing practices, which take market developments into account, are being considered for other administered prices.

The number of bankruptcies has been low. Besides reluctance to let enterprises go bankrupt, proceedings are hampered by the lack of administrative capacity in the court system. Procedures in courts are lengthy with a sizeable backlog, and verdicts are not always enforced. Some progress has however been achieved in 1999 due to productivity increases in the courts. In Slovenia, the preferred approach to failing or loss-making companies has been re-organisation or re-capitalisation. While this allows the companies to survive in the short-run, it does not necessarily guarantee their long-term economic viability.

The business climate can be improved. The decrease of foreign direct investment in 1998 and 1999, which continued into 2000, serves as a clear warning about the need to improve the general framework for investors and business. Transaction costs of setting up business are high relative to the small size of the domestic market. Labour markets are rather inflexible and unit labour costs higher than elsewhere in the region. The costs of laying-off workers could be dissuasive under present rules and discourage investors from expanding activities. Bureaucratic procedures for obtaining permits and difficulties in buying land for construction have also deterred foreign investors. The continued heavy involvement of the public sector in areas such as banking, insurance, utilities, and health and the widespread use of management and employee buy-outs in the privatisation process contribute to the perception of slow economic reforms. As a result, foreign investors are reported to feel confronted with an 'insider club', which in practice creates a non-transparent business environment. A clear signal of the Government's commitment to withdrawing from its involvement in the economy and progressively removing the remaining restrictions on foreign investment and capital flows would be beneficial.

Restructuring of the banking sector has been slow. The main development was the transfer of 10% of the State's share in Nova Ljubljanska Banka and NKBM to the Capital Fund and the Health Fund. The Government is preparing a strategy for privatising these banks but is under some political pressure to recuperate the costs of the rehabilitation, which was needed after the disintegration of the Socialist Federal Republic of Yugoslavia. In early 2000, more than 40% of banking sector assets were still directly controlled by the state. The capital adequacy ratio is on average 13.9%, but lower in the state-owned banks. There has been some progress in implementing banking supervision and a new law requires supervision of banks on a consolidated basis.

The insurance sector has remained more protected than the banking sector, but the first steps towards market liberalisation were made with two framework laws in January 2000. The first law in principle opens the market to foreign competition while the second determines how to assess the value of the social capital. This is a precondition for completing ownership transformation. There is still little foreign competition in the sector and for this reason less pressure to improve efficiency. The implementation of the law on ownership transformation is currently suspended as the legislation has been brought before the constitutional court, causing a further delay to the much-needed restructuring of the insurance sector. The Insurance Supervisory Agency has so far not been given the budgetary and staffing resources it needs for properly fulfilling its function, given the size and complexity of the insurance sector

Financial markets remain partially shielded from international competition by de facto restrictions on certain types of short-term capital movements. These have been kept out for fear of the possible destabilisation of the financial system from massive capital

movements of a speculative nature. In accordance with Slovenia's obligations in the integration process with the EU, the restrictions have now been reduced. Further restructuring and deepening of financial markets would be the appropriate and necessary preparation for further liberalisation of capital movements and would provide a better environment for the operation of monetary and exchange rate policies.

Slovenia can be regarded as a functioning market economy. Continued macroeconomic stability, with fiscal and external balances under control, has provided the basis for steady growth. Economic reform is well underway, but the state still has considerable influence in certain areas of the economy. Progress in improving the economic climate, combined with a full and timely completion of structural reforms and market liberalisation, would help to attract more foreign investors and provide better conditions for future growth. The relevant legal and institutional framework for a market economy is largely in place but needs further implementation. Particular attention should now be paid on reinvigorating the reform of the financial sector where the disengagement of the state should be accelerated and competition encouraged. This would foster enterprise development and improve market efficiency.

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

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

Slovenia is a functioning market economy. Macroeconomic stability is ensured and confirmed by a solid track record, with good fiscal control, low inflation, a sustainable current account balance and low external debts. This creates the basic conditions for coping with competitive pressures. The remaining challenge is to manage macroeconomic policies in a more open environment.

The labour force is well educated, but there are substantial bottlenecks in the re-allocation of labour from traditional industries to activities with a higher technological content. A well targeted effort in terms of ongoing education and training is necessary to reduce parts of structural unemployment. The competitiveness of the Slovenian economy has been sustained by a decreasing real effective exchange rate.

Slovenia has a well-developed infrastructure, which is continuously improved. Investment rates have been steadily increasing in recent years and this is gradually putting in place the conditions for greater efficiency. In 1999, the investment to GDP ratio increased to about 27%, up from 25.5% the year before. However, low FDI inflows are a source of concern. As FDI is an important vehicle for the transfer of technology and modern management techniques, this problem should be addressed. A recent

Government strategy for attracting FDI is a step in the right direction but has not yet produced results. A sustained level of FDI will require a more transparent economy and real competition in key sectors.

Restructuring of the enterprise sector is proceeding, but slowly. The first phase of ownership transformation is now being followed by a second phase where the privatised enterprises invest in more rational production techniques and improve the quality of the management in order to increase productivity. From May 1999 to May 2000 unit labour costs decreased by 6.4%. In 1999, company profits more than tripled compared to 1998. The situation is mainly improving for enterprises that are owned by individuals or foreigners. In this group, investment is strong and there is a return to profitability, increasing employment, and a rising contribution to exports. Within the larger group of public enterprises and firms privatised through management-employee buy-outs, the development is less encouraging. Profitability is low or negative, accompanied by a lack of investment and a decrease in employment. This shows the limits of privatisation methods that do not bring in new capital or new management experience.

The State continues to intervene in many sectors of the economy, either directly as the *de facto* owner of enterprises, financial institutions and utilities or indirectly through special aid schemes. In 1999, the total volume of State subsidies was assessed at 3.5% of GDP, almost three times higher than the level in the EC-15 with an upward trend since 1996. While the Slovene Development Co-operation is formally independent, its behaviour has been described as interventionist with cross- subsidisation taking place between companies under its authority. Agricultural policy is characterised by subsidy and price levels well above EC-15 levels in a number of production branches and is the most protectionist in the region.

Trade integration with the EU remains at a high level. Slovenia has actively redirected its exports following the wars in the Balkans. Since the Russian crisis, trade with Russia has come to an almost complete halt and is now less than 2% of total trade. A certain return to historical trade patterns would be expected following more positive developments in the region, especially in neighbouring Croatia. The economy of Slovenia remains very open with the sum of imports and exports amounting to over 110% of GDP. In 1999, 66.1% of exports were destined for the EC markets, while 68.6% of imports originated in the EC. Export growth is mainly coming from firms with foreign or individual owners. Cars and car parts are among the important export items.

SMEs are important in the economy and account for 99.7% of companies (1998), 57.6% of employment and 57.1% of revenues. They face difficulties accessing banking finance as well as administrative barriers in obtaining permits and licences. The Government has prepared a special "anti-bureaucracy programme" to reduce the administrative obstacles (*see also chapter 16 – Small and medium-sized enterprises*).

Slovenia should be able to cope with competitive pressure and market forces within the Union in the near term provided that it completes the remaining reforms that would increase competition in the economy. To better prepare itself for this challenge, the role of the state in the economy should be progressively reduced and more reliance put on market forces by encouraging competition. In the short term, there is a need to reinvigorate the reform of the financial sector and to accelerate enterprise restructuring. Labour market flexibility should also be increased. The ability to attract foreign investors would be an indication of the real progress in completing the reform agenda

and of further integration in the EU economy. This would result in increasing productivity and greater competitiveness.

2.4. General evaluation

Slovenia can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it completes the remaining reforms that would increase competition in the economy.

Continued macroeconomic stability, with fiscal and external balances under control, has provided the basis for steady growth. Some steps to assure the medium-term sustainability of pension reform have been taken. The legal and institutional framework for a market economy is largely in place.

However, implementation of this framework can be improved. Furthermore, the state still has considerable influence in certain areas of the economy. In particular, the continued dominance of the financial sector by state-owned banks holds back development and competition. The slow progress on privatisation and rigid business conditions are keeping foreign direct investment inflows at a low level.

Progress in improving the economic climate, combined with a full and timely completion of privatisation, structural reforms and market liberalisation, would attract more foreign investors and provide better conditions for sustained future growth. In the short term, there is a need to reinvigorate the reform of the financial sector, where competition needs to be encouraged, and to accelerate enterprise restructuring. Labour market flexibility should also be increased. These measures would foster enterprise development and improve market efficiency

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 1999 regular report on Slovenia'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 Slovenia'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 Slovenia'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 Slovenia 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 Slovenia'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 :

“Slovenia significantly accelerated its overall legislative approximation effort and demonstrated impressive progress across most sectors of the *acquis*. Key parts of internal market legislation have been adopted. In the field of standards and certification, this includes the adoption of framework legislation, sector specific legislation and product liability legislation. Data protection legislation has been adopted. Important progress was made in capital liberalisation and the banking and securities sectors which together with changes in the company law have removed many of the restrictions on foreign companies doing business in Slovenia. The adoption of laws on anti-trust and on VAT/excise are two further important steps in alignment with the internal market *acquis*. Progress in alignment is also reflected in justice and home

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

affairs where laws were passed on foreigners and asylum and measures taken to combat organised crime and corruption. Efforts have been sustained in the employment and social affairs area where the level of alignment to the *acquis* is already high. In environment, laws were adopted in the fields of water, air, waste management and nature protection and some progress was made in estimating costs and developing financial plans for alignment. The Customs Law was amended, bringing Slovene legislation and practice in this area further in line with that of the EC. Progress is being made in the veterinary and plant health fields but the pace of alignment needs to pick up as there is still a lot to do in the agricultural sector.

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

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

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

3.1. The chapters of the *acquis*

As indicated, the review of Slovenia’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

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

Progress has continued, on the basis of the legislative framework adopted last year, as regards the **principles of the New and Global Approach**. A decision was taken in April to establish the Slovenian Accreditation Body, which is a full member of European Accreditation. The accreditation functions carried out until now by the Standards and Metrology Institute of Slovenia (SMIS) have been transferred to it. A decision to establish the Slovenian Institute for Standardisation was taken in July, allowing the transfer of the standardisation functions from SMIS. These developments completed the segregation of the accreditation, certification and standardisation functions performed until now by SMIS. At the end of 1999, 15 bodies had been accredited in accordance with the relevant standards from the EN 45000 series, including 9 calibration laboratories, 5 testing laboratories, and one certification body for quality systems. As regards **standardisation**, Slovenia has made steady progress since last year. In June, it had adopted 65% of CEN and CENELEC standards, respectively 3851 and 2168, as well as 43% of ETSI standards, i.e. 624. The minimum required for allowing membership to these European standardisation organisations is 80%. A decree was adopted in July introducing the directive on the **notification procedure** for standards and technical regulations. No particular developments occurred since the last Regular Report concerning the **interchange of data between administrations**.

Substantial progress has been made in sector specific legislation. An order on pre-packed products was adopted in December 1999 and the metrology act, which transposes the *acquis* concerning **legal metrology** and **pre-packaging**, was adopted in February 2000. The act lays down the measurement system, the essential requirements, as well as the conformity assessment and control conditions. As regards conformity assessment, the application of proper markings, the mandatory notification of producers' identifying marks, and the notification of conformity assessment bodies will become effective after the conclusion of the Protocol to the Europe Agreement on Conformity Assessment (PECA). The SMIS will remain the authority responsible for implementation.

The directive on **machinery** was implemented in June 2000 through secondary legislation. Application of CE marking and notification of conformity assessment bodies will become effective after the conclusion of the PECA.

Secondary legislation concerning personal protective equipment (**PPE**) was issued in September 2000. Surveillance functions have been granted to the Labour Inspectorate. Implementing secondary legislation on **gas appliances** was adopted in September 2000.

For **electrical equipment**, the directives on **low voltage** and **electromagnetic compatibility** (EMC) were implemented in June 2000 and December 1999 respectively, through secondary legislation. Application of CE marking and notification of conformity assessment bodies will become effective after the conclusion of the PECA.

Concerning **medical devices**, the Act on Medicinal Products and Medical Devices adopted in November 1999 now provides the framework for alignment in this area and conceptually separates medical devices from other pharmaceutical products. A regulation was adopted on that basis in July, concerning retailers of medical devices.

Substantial progress has been made in the area of **construction products** with the adoption in May 2000 of the construction products act, which incorporates the requirements of the directive and regulates the marketing of construction products. The National Construction Inspectorate has been granted the market surveillance functions.

The remaining steps to be taken are the adoption of harmonised European standards and of European technical approvals.

In the area of **foodstuffs**, a substantial step towards alignment was taken with an act regulating the sanitary suitability of foodstuffs and products and materials coming into contact with foodstuffs, adopted in May. It is a framework law, which provides the basis for further alignment through subsequent secondary legislation. The agriculture act adopted in June also provides for further approximation in the sector. Slovenia started to adopt secondary legislation, by issuing (in early 2000) regulations on the criteria for authorisation of testing organisations in foodstuffs, on additives, on erucic acid, and on mineral and spring water, and on labelling of pre-packed foodstuffs. The health inspectorate act, adopted in November 1999 provides the legal basis for the enforcement activities of the Health Inspectorate for this part of the *acquis*. The market surveillance functions have been granted to the agriculture and veterinary inspectorates. The administrative capacities and responsibilities for law enforcement and control of processed food and food of non-animal origin also need to be clarified and strengthened.

Concerning **chemicals**, progress continued. A series of items of secondary legislation was adopted, covering restrictions on marketing or use of certain dangerous substances and preparations, classification, packaging and labelling of dangerous preparations, principles and control of good laboratory practice. The act on transport of dangerous goods adopted in 1999 contains some of the alignment provisions required concerning explosives. An act on illicit drugs precursors was adopted in February. The act organises the monitoring of export, import and domestic trade in drug precursors, defines conditions for their production and trade, and contains an updated list of drug precursors, thus transposing the relevant EC regulation. The staff of the national chemicals office, set up in October 1999 on the basis of the chemicals act, was increased from 9 to 14 officials in 2000. The health inspectorate act, adopted in November 1999 provides a legal framework for the surveillance and enforcement activities of the Health Inspectorate for this part of the *acquis*.

In the area of **pharmaceuticals**, a major step towards alignment was taken through the adoption of the Act on Medicinal Products and Medical Devices in November 1999. The act aligns in particular the conditions and procedures for marketing authorisations with the *acquis*. On that basis, Slovenia started to enact the relevant secondary legislation, notably on the determination and method of classification of medicinal products, on the toxicological and pharmacological testing of medicinal products, on clinical trials, on colourings, and on authorisations to trade in medicinal products. In May 2000, a new regulation on wholesale pricing of medicinal products was also adopted, which is in line with the relevant directive. The act also introduced the regulatory data protection of clinical trials and test data supporting applications for marketing authorisations as of 2000, but a subsequent amendment postponed the entry into effect of that protection until 2002. A law on the supply of blood was also adopted in May, which aims at alignment with the relevant directive. The health inspectorate act, adopted in November 1999, provides a legal basis for the enforcement activities of the Health Inspectorate for this part of the *acquis*. The staff of that body, as well as that of the office for medicinal products, was reinforced, with additional posts and training is being provided to inspectors.

A substantial step towards alignment with the *acquis* on **cosmetics** was made with the adoption in July of an act on cosmetic products, which sets safety requirements, and provides for free circulation and conformity assessment procedures.

Slovenia has aligned with the entire *acquis* on **textiles and footwear**, through the adoption of secondary legislation on fibre composition specification and textile names, on labelling of textiles and footwear, and on the method for quantitative analysis of fibre mixtures. The discriminatory labelling and certification provisions applying to imported textile products were repealed.

No substantial progress was recorded since the last Regular Report in the fields of **toys, recreational craft**, equipment used in potentially explosive atmospheres (**ATEX**), **lifts, pressure vessels, motor vehicles, glass, or wood**.

Some progress was made in **the non-harmonised** area with the abolition in January of discriminatory provisions on imported textile products which were contrary to Articles 28-30 of the EC Treaty, with the adoption of an act on firearms which is meant to transpose the relevant directive, and with the adoption of the Cultural Heritage Act which aims at transposing the cultural goods directive.

Significant progress in terms of legislative alignment was achieved in the area of **public procurement** with the adoption in 1999 of a new act on the review of public procurement procedure, and the adoption in April 2000 of a new act on public procurement.

The former provides for remedies and protection of bidders throughout the award procedure, as required by the *acquis*. It also foresees the establishment of an autonomous state body, the national review commission (NRC). In order to protect their independence, NRC members are appointed by the National Assembly and cannot be dismissed except for infringement. During the first months of 1999, the review commission that preceded the NRC received 250 claims. One third of these were rejected as unfounded, and for around 160 the decision of the awarding authority was partially or totally cancelled.

The latter law of April 2000 regulates procurement of supply, works and services, including for entities operating in the water, energy, transport and telecommunications sector. It introduces the EC principles of transparency and equality, and defines procedures and deadlines for procurement. The 10% preference for domestic bidders has been abolished. The act also foresees the establishment, within one year from its entry into effect, of a public procurement office whose task is to provide training and advice to awarding authorities, and to centralise calls for tenders on their behalf. However, this law must be supplemented with secondary legislation in order to ensure full alignment. Some improvements will still be needed, for example removing the compulsory use of Slovenian standards and technical specifications in public procurement.

Overall assessment

On the whole, substantial progress has been achieved on the legislative side, mainly over the last two years. Attention should now be focused on the timely and complete enactment of the remaining secondary legislation and on the strengthening of the

institutional set-up, including of the institutions that replaced the SMIS, and of the conformity assessment bodies.

As regards **Horizontal and procedural measures**, Slovenia has had in place since 1999 rational horizontal framework legislation implementing fully the **principles of the New and Global Approach**. This framework consists of the Act on General Safety of Products, the Standardisation Act, the Act on Technical Requirements for Products and Conformity Assessment and the Act on Accreditation. The practical establishment of the related institutional framework is progressing since the SMIS has been fully reorganised. However, conformity assessment bodies still need to be strengthened, including in terms of trained staff, or in some cases created. Market surveillance requires better coordination between the national authorities responsible. In the area of **standardisation**, Slovenia could reach the level of 80% of adoption of European standards required for membership of European standards organisations, provided the current pace is sustained. The situation with regard to the **notification procedure** for standards and technical specification and to the **interchange of data between administrations** is satisfactory.

Concerning **Sector specific legislation**, the situation appears satisfactory as regards legislation adopted by the parliament, since all key framework legislation has been adopted except for fertilisers and recreational craft. Some fine-tuning in specific areas still remains to be done. There has been progress in terms of secondary legislation, which has allowed a good level of transposition in the areas of legal metrology, pre-packaging, machinery, low voltage and EMC, textiles and footwear, as well as partial transposition of the *acquis* on foodstuffs, chemicals, pharmaceuticals medical devices, construction products and motor vehicles. However, the Slovenian authorities themselves admit that the pace of implementation of the remaining secondary legislation is slower than initially planned. This is notably the case as regards foodstuffs, pharmaceuticals, ATEX, lifts, pressure vessels, and wood.

Progress has been made in strengthening the institutional set-up, but further efforts are needed as regards both market surveillance and the preparedness of conformity assessment bodies. The Trade Inspectorate, which performs most market surveillance tasks in connection with the construction, Agriculture, Veterinary, Labour, and Health Inspectorates, currently employs 155 persons, including 131 inspectors, and should be strengthened both in terms of staff and of expertise. As regards motor vehicles, the envisaged transfer of type-approval from SMIS to the Ministry of Transport has still not been implemented, even if the type approval system is mostly based on the EC model. A type-approval body for agriculture and forestry tractors also remains to be identified.

The situation in the **non-harmonised area** is on the right track, considering the progress achieved this year and the adoption last year of the Cultural Heritage Act, which aims at transposing the cultural goods directive. However the elimination of indirect barriers to trade, including the introduction of mutual recognition clauses in the legislation, will require continuous efforts. As regards safety checks on products at external borders, Slovenia still needs to establish appropriate infrastructure as well as effective administrative cooperation between the customs and other competent authorities.

While the legislative framework on **Public procurement** is largely in place, some further legislative work is still needed. Most efforts should now be devoted to effectively establishing the Public Procurement Office, and to fine-tuning and

effectively implementing the legislation, at all administrative levels. This will require substantial training efforts for all staff involved in the public procurement procedures.

Most of the Accession Partnership priorities in this area have been met.

Chapter 2: Free movement of persons

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

There have been no particular developments since the last Regular Report in the area of **mutual recognition of professional qualifications and that of Citizens' Rights**. The right of residence of EU nationals is regulated by the Foreigners Act.

In the field of **free movements of workers**, the Law on Foreign Worker Employment and Labour adopted in July 2000 incorporates the *acquis* in the area of prevention of discrimination against EU nationals in the labour market into Slovenian legislation. This law is closely linked to the Foreigners Act, which regulates the right of foreign nationals to reside in Slovenia. It contains provisions treating EU workers like workers from third countries. However, a provision foresees that upon accession to the EU these provisions will cease to apply.

With a view to the future **co-ordination of the social security systems**, no new developments have taken place regarding the administrative strengthening required. A new bilateral agreement on social security with Germany entered into force in September 1999, and Slovenia signed such an agreement with the Netherlands in March 2000. These agreements will enhance Slovenia's experience in this area, including administrative practice.

Overall assessment

The progress achieved by Slovenia in this area is still limited.

Slovenian legislation in the field of **mutual recognition of professional qualifications** is only partially aligned with the *acquis*. Alignment requires firstly the fulfilment of a comprehensive legislative programme, which entails both introducing general legislation on procedures and bodies, and adjusting the legislation governing the various professions. It will, moreover, require introducing the principle of mutual recognition of professional qualifications, which should not be confused with academic recognition and will thus be a new feature in Slovenian legislation. Further efforts are required in adopting new legislation in the field of **free movement of workers**, notably the amendment of two acts. The insurance against unemployment act should be amended to provide for equal treatment of EU and Slovenian workers, as regards rights deriving from social protection in the case of unemployment. The housing act should be amended to provide for equal rights of workers regarding access to non-profit and social housing without any reciprocity condition.

Efforts will have to be continued to strengthen public employment services with a view to future participation in the EURES network, including language training of staff.

In the field of **citizens' rights**, as regards the voting rights of EU citizens, Slovenia has not yet aligned its legislation with the *acquis*. An Act governing the voting rights of

Slovenian nationals in elections to the European Parliament will have to be adopted by accession.

With a view to the future **co-ordination of the social security systems**, Slovenia already fulfils certain bilateral obligations, including bilateral obligations with the majority of the EU Member States, that are to a certain extent similar to the principles of co-ordination of the social security systems. Implementation of the relevant EC regulations after accession requires not only that Slovenia effectively introduce the planned administrative structure, but also that Slovenia foresee the appropriate financial means to this end.

Overall, it is important that there are no provisions in Slovenia's legislation which contradict Community rules, in particular with respect to nationality, residence or language requirements.

Chapter 3: Freedom to provide services

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

Some progress has been made as regards **freedom of establishment and freedom to provide services** in non-financial services, with the adoption in June of an act amending the small business act. It repeals restrictions to freedom to provide services based on citizenship or residence permit requirements. Certain restrictions on the freedom to provide agricultural and forestry services were also lifted in the new agriculture act adopted in June. The Act on Foreign Workers' Employment and Labour, adopted in July, provides general provisions on the establishment and activities of foreign self-employed individuals. Slovenia also adopted an act on administrative fees, which aligns the procedures and levels for determining such fees with the relevant directive.

In the field of **financial services**, the Bank of Slovenia continued the progress towards alignment in banking by issuing secondary legislation on the basis of the Banking Act of 1999, including a number of supervision and prudential provisions and the creation of a new deposit guarantee system. In terms of supervision, the Bank of Slovenia has decided to increase the staffing of its banking supervision department to 45 officials in 2000. It also intensified the frequency of on-site inspections of banks in 1999. 39 inspections were conducted, of which 9 were full-scope inspections. Slovenia has also brought the savings and loans undertakings under full banking supervision.

Substantial progress towards alignment with the *acquis* in insurance has been made. An act on insurance and an act on ownership transformation of insurance companies were adopted in January 2000. However, the implementation of the latter is suspended as it has been brought to the Constitutional Court. The insurance act establishes a framework for safe and prudent provision of insurance services. It also foresees the lifting of restrictions upon the establishment of subsidiaries and branches of EU companies, with transitional periods for life and property insurance. Furthermore, it includes provisions for supervision according to EC principles, and transforms the relevant office of the Ministry of Finance into an Agency for Insurance Supervision. The agency is a legally independent and autonomous entity. Its director has been nominated by the government and is directly accountable to Parliament. The staff, which was slightly increased in 2000, is undergoing training.

In the area of investment services and securities markets, the Securities Market Agency continued to make progress towards alignment, initiated by the securities market act of 1999, by issuing a substantial set of secondary legislation based on that act. It also received ten more posts in order to meet the new supervision tasks foreseen by the securities markets act and by the act on pension funds.

Concerning the **protection of personal data and the free movement of such data**, an Act on Data Records in the Field of Health was adopted in July. It regulates the collection and processing of data in the health sector, and protects personal data in that respect.

As regards **Information society regulations**, Slovenia adopted an act on electronic commerce and electronic signature in June 2000 which provides a legal framework for electronic signatures and organises the activities of digital signature verifiers, thus ensuring alignment with the relevant directive of December 1999. An implementing decree on conditions for electronic commerce and electronic signature was adopted in August. A decree introducing the notification procedure foreseen by the directive on transparency in the information society was adopted in July 2000.

Overall assessment

Slovenia has reached a substantial level of progress in this area.

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

Acquis alignment is well under way as regards direct discrimination against **freedom of establishment and freedom to provide services**, although the new obligation code is still awaited in order to comply with the *acquis* related to self-employed commercial agents. Further amendments to parliament legislation are also needed to remove obstacles to free establishment and free provision of services in a series of sectors including agriculture and forestry, cultural activities and film production, transport agents, and real estate agents. In addition to the complete removal of direct discrimination, attention will now have to be focused on indirect discrimination, including procedures that service providers have to follow in order to have access to property.

As regards **banking**, Slovenia is coming closer to full alignment since most of the banking legislation is in place, including the free establishment of foreign banks. The parliament still needs to adopt an act on payment transactions so as to introduce the competition-based system of inter-bank payment transactions. Further secondary legislation as regards prudential requirements related to capital adequacy and netting remains to be adopted, and provisions regarding the home country control principle will require adjustments to secondary legislation. Slovenia now needs to focus on the effective implementation and supervision of the new legislation, as well as on increased cooperation with other European supervisory authorities.

In **insurance**, a parliament act is still needed in order to align with the *acquis* on compulsory insurance for motor vehicles. Slovenia should proceed with the adoption of the secondary legislation needed to implement the framework insurance act. Continued efforts are also needed to further reinforce the supervision body, both in terms of staff level and training, and in terms of intensity of controls.

In the area of **investment services and securities markets**, a parliament act on investment funds and management companies remains to be adopted, in order to clarify the future role of investment funds which, following the UCITS Directive, should be able to manage portfolios of shares of companies. The further use of vouchers acquired through mass privatisation will have to be reviewed in this context, given, for instance, the holding limits of shares in one and the same company flowing from the UCITS⁹ Directive. Four items of secondary legislation remain to be enacted on the basis of the securities markets act and an investor compensation scheme needs to be introduced. All in all, the legislation has come closer to the *acquis*, even if effective integration into the single market rules in this sector is closely linked to the timetable for liberalising capital movements. Attention will also have to be paid to the effective fulfilment by the securities markets agency of its new supervision tasks, and to more systematic coordination with the other supervision bodies.

In conclusion, a substantial level of *acquis* approximation has been achieved in **financial services**, and a clear timetable for market opening has been set. However, there are still concerns as regards the preparedness of the sector for increased competition, since the market structure is still characterised by a combination of persistent dominant positions and a number of scattered small undertakings, and since the ownership structure has only evolved to a limited extent.

The 1999 legislative framework for the **protection of personal data and the free movement of such data** is largely in line with the directive. However further fine-tuning is needed, notably as regards the movement of data, and an independent supervision institution in line with the requirements of the directive needs to replace the present authority for data protection that reports to the Ministry of Justice.

Slovenian legislation is in line with most of the **information society regulations** contained in the *acquis*.

Chapter 4: Free movement of capital

Some progress has been made during the reporting period in the area of **capital movements and payments**. Several decisions of the Bank of Slovenia have been enacted to implement the Foreign Exchange Act, which was adopted in March 1999. In addition, in June 2000 the Governing Board of the Bank of Slovenia defined a timetable for the liberalisation of capital flows. The secondary legislation adopted since last year's Report provided mainly for a further easing of existing restrictions in the field of portfolio investments by non-residents, operations on current and deposit accounts with domestic financial institutions by residents as well as with financial institutions abroad by residents, and import or export of financial assets. The Law on Recording Property, State Border and Premises, adopted in May 2000, aims to unify the real estate

⁹ Undertakings for Collective Investment in Transferable Securities

registration system to obtain more reliable data. The act provides the legal basis for the project of modernising property registering supported by international funds. The government adopted in December 1999 a programme for the reform of payments, in order to replace the earlier system based on a central payment agency with a competition-based system of inter-bank payment transactions. The Ministry of Finance and the Central Bank also issued criteria for performing payments to be fulfilled by banks when they take over the payment function.

In the field of **cross border credit transfers**, Slovenia partially transposed the Directive on customer information and on execution times for cross-border transfers by adopting a decision on the conditions and methods of carrying out international transactions.

Regarding **money laundering**, no particular developments can be reported.

Overall assessment

While the entry into force of the new Foreign Exchange Act presented a substantial step forward in the process of capital movements liberalisation, further alignment has to be ensured.

Restrictions remain mostly on short-term transactions (money market securities transactions, operations on current and deposit accounts with financial institutions, physical import or export of cash), but also on portfolio investments and acquisition of real estate by non-residents. Further progress should take place in accordance with the 'liberalisation timetable' that was adopted in June 2000 by the Bank of Slovenia. It provides for the abolition of existing restrictions on some capital movements between the end of 2000 and the end of 2002. However, open issues remain with regard to the existence of 'special control rights' of the state in privatised companies and the rules applying to investment activities abroad of institutional investors.

Given the low level of foreign direct investment, the government has implemented a strategy to stimulate it, which aims at, among other things, the elimination of administrative barriers.

Slovenia is still lagging behind as regards capital movements linked to the right of establishment in the field of transport, telecommunications and media, where participation of foreign investors is still severely restricted. Further progress in this field should be an urgent priority.

Slovenia introduced a real time gross settlement (RTGS) system in 1998 and a Giro clearing system for retail payments in 1999. The recent legislative development and the ongoing reform of the payment system confirm the good overall progress of Slovenia in this area.

Slovenia's legislation concerning money laundering is in line with the *acquis*.

Due to the remaining restrictions on capital movements, the priority identified in the Accession Partnership to speed up alignment of the legislation on foreign direct investments in sectors still restricted (in particular the financial sector, transport, telecommunications and media) has been met only partially.

Further liberalisation of capital flows does not require additional administrative capacity due to the abolition of control mechanisms. However, further liberalisation has to be accomplished by an efficient system of monitoring of capital flows. Therefore, the Bank of Slovenia should ensure that both well-trained staff and a reliable data base system are available.

Chapter 5: Company law

Since the last Regular Report, Slovenia has made limited progress in this area.

In the field of **company law**, no particular developments have taken place since the last Regular Report, except in the field of accountancy. With the adoption of the Accountancy Act, Slovenia has implemented the legislation concerning accounting for non-profit organisations. The act has been in force since January 2000. Slovenia has applied to the Lugano Convention.

In the field of **intellectual and industrial property rights**, Slovenia has ratified the World Intellectual Property Organisation (WIPO) Copyright Treaty and the Act Ratifying the WIPO Performances and Phonograms Treaty.

No significant developments have occurred since the last Regular Report regarding the administrative capacity.

Overall assessment

Slovenia has reached a rather good level of preparation in this chapter.

The legislative framework concerning **company law**, including accountancy, is to a large extent in line with the *acquis*.

However, amendments to the recent Law on Commercial Companies still have not been adopted by the National Assembly, notably as regards the protection of creditors, the classification of companies, certain publicity rules, the definition of certain capital categories, the alignment with the principle of uniform merger, and the abolition of the existing obligation to use the Slovene language in companies. The Auditing Act, which is intended to bring Slovenian legislation on auditing in line with the Eighth Council Directive, is still in parliamentary procedure.

Significant legislative progress has already been made in the area of **intellectual and industrial property rights**. In certain areas, only slight technical and terminological improvements are necessary. These include amending the Copyright and Related Rights Act. The major remaining legislative step is the adoption of an act on border enforcement, which should cover both fight against piracy and against counterfeiting, as well as a new act on industrial property.

The administrative capacity is partially in place to implement the *acquis* and all the relevant institutions have already been identified. Concerning intellectual and industrial property rights, particular attention should be paid in the forthcoming years to more effective implementation of the new legislation through training and other activities for the enforcement officers and magistrates.

Chapter 6: Competition policy

Since last year's Regular Report, Slovenia has made substantial progress in this area, in particular in the field of State Aid.

In the 1999 Accession Partnership for Slovenia, alignment of merger control and state-aid legislation, as well as full enforcement of competition legislation, were identified as short-term priorities.

In the field of **anti-trust**, the implementation of the new Act on Prevention of Restriction of Competition has begun. Ministerial instructions on procedures and conditions for determining the relevant market were issued. The Government also adopted a decree on block exemptions, as well as a decree about the form of notification of concentration of undertakings. These represent major steps in the process of bringing Slovenian legislation in line with the *acquis*.

The Competition Protection Office is the national competition authority in Slovenia. Its functional independence and powers are laid down in the Act on Prevention of Restriction of Competition. The Office, which comprises nine officials, recruited two more professionals in 2000. In 1999, the Office handled 31 antitrust cases. Of these 7 concerned restrictive agreements, 16 were procedures initiated for abuse of dominant positions, 6 were applications for individual exemptions, and 2 were applications for negative clearance. In addition, the Office analysed 23 merger notifications and issued 15 decisions. Overall the Office issued 20 final decisions, in none of which infringements were found, sometimes due to additional commitments subscribed to by the parties. There were no court cases in 1999.

In the field of **state aid**, Slovenia adopted in December 1999 a framework Act on State Aid Control, which entered into force in January 2000. This act contains the basic principles of EC State Aid control, as well as procedural provisions, thus providing a basis for the control of aid proposals in Slovenia. The Government started implementing the Act, notably through the adoption of a government decree on the Purposes and Conditions for the Granting of State Aid, and of rules on the preparation of the annual state aid survey. However, the new act does not apply to existing aid schemes. For such aid, the Government approved in May 2000 a programme on harmonising the existing state aid with EC standards.

Slovenia has prepared a state aid report for the years 1998 and 1999. It largely follows the methodology and the presentation of the Community's Survey on State Aid and provides for a very good level of comparability. A state aid inventory has also been prepared which should help in ensuring that the adjustment programme for the existing aid measures covers all relevant legislation. Attention must now be paid to the full coverage of the inventory, including all relevant legislation on taxation.

The national state aid monitoring authority is the Commission for State Aid Control established by the new act. The Government appointed the members and approved the rules of procedure of that commission in February 2000. The Commission for State Aid Control relies on the administrative and technical support of the State Aid Control section, which was set up in the Ministry of Economic Relations and Development, and employs eleven people. Programmes of adjustment for the leather, footwear, textile and apparel industries have been approved for the period 2000-2003. A restructuring programme for the steel industry has been presented to the European Commission.

Overall, up to September 2000, the Commission dealt with 44 notifications. It approved 20 of these, 11 of them conditionally. In 6 cases it found that the measure notified did not constitute state aid. 7 notifications were rejected. 11 were pending.

Overall assessment

Slovenia has reached a substantial level of progress in this area.

As regards **anti-trust**, Slovenia's legislation covers most of the *acquis* provisions and the existing legislation is fully in line with the EC rules. The Competition Protection Office has broad powers to enforce competition rules and its staffing is being reinforced. The most important challenge for the office is now to ensure that the application and enforcement of the anti-trust rules is effective and that priority is given to cases that concern the most serious distortions of competition.

As regards **state aid**, an important step has been taken with the adoption of the framework legislation. Following the introduction of secondary legislation, the existing provisions are now largely in line with the *acquis*. Efforts have also been undertaken in the fields of industry adjustment and restructuring programmes and schemes. Particular attention should now be paid to the alignment of existing aid measures and old legislation on the basis of which aid continues to be granted. Effectiveness of the enforcement and monitoring capacity in this area cannot yet be fully ascertained since the Commission for State Aid Control was established only recently. The State aid Commission has already scrutinised a number of aid proposals submitted to it by the aid granting bodies. The main priority now is to ensure that the enforcement of the state aid rules is systematic and includes a swift alignment of existing aid schemes and legislation under which authorities at various levels grant aid. For this purpose, the adjustment programme mentioned above should now be swiftly put into effect.

In order to ensure a differentiation of maximum aid intensities in assisted areas, Slovenia should now complete the establishment of a regional aid map in consultation with the Commission.

Chapter 7: Agriculture

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

Agriculture in Slovenia accounted for 3.6% of GDP in 1999¹⁰. Employment in agriculture accounted for 10.2% of total employment¹¹.

¹⁰ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

¹¹ 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. Fuller 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.

Data of the Statistical Office of the Republic of Slovenia on **agricultural output** in 1999 show that the early harvest of cereals was poor. 31% less wheat was produced compared to the abundant crop of the previous year and the harvest of late crops was equally poor. The production of grain maize and silage maize was 8% and 9% lower compared to 1998. The yield of early fruit was high (any comparison with 1998 is not relevant due to the severe frost in that year) while the yield of late fruit and grapes was low: production of apples in plantation orchards fell by 14% and grapes by 20% compared to 1998. As in previous years, the production of sugar beet increased in 1999, up by 23%, as a larger area was again sown last year. As regards animal husbandry, the total number of cattle increased by 4% at the end of 1999 compared to the year before, the number of sheep remained the same as in 1998, while the number of pigs fell by 5.7%. Slaughterhouses reported a 23%-rise in slaughtered pigs, and a 2%-rise in slaughtered cattle. The total purchase of agricultural produce did not increase to last year's levels despite the higher agricultural production.

In 1999, EC imports of agricultural products originating in Slovenia decreased by 1% to € 89.5 million. EC exports to Slovenia decreased by 1% to € 415 million. The trade balance in favour of the Community amounted to € 325 Million compared to € 329 million in 1998¹². The most important product group in terms of EC imports from Slovenia is meat and edible meat offal. As far as EC exports to Slovenia are concerned, the most important sectors are tobacco, various food preparations as well as fruit and cacao.

With the entry into force of CEFTA Protocol No. 6 in January, Slovenia liberalised trade in agriculture with all the other six members of the Central European Free Trade Agreement (CEFTA). In May Slovenia and the EC concluded negotiations on the liberalisation of trade in agricultural products as regards list 1 (non-sensitive products) and list 3 (specific requests). (*For details see part Ab on Relations between the EU and Slovenia*)

The **budget** for agriculture has been increased by 37% for the 2000 budget. This increase facilitated the expansion of direct area payments for all arable crops, the introduction of area payments for less favoured areas, the introduction of environmental measures as well as the setting up of the appropriate institutions and services.

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

Horizontal issues

The adoption of the Agriculture Act in June presents a major step towards the alignment to the Common Agricultural Policy. The Act provides the legal basis for issuing the relevant secondary legislation, in particular regarding alignment to the EC's common market organisations and for a rural development policy in line with the *acquis*.

As regards the implementation of measures related to the **European Agricultural Guidance and Guarantee Fund (EAGGF)**, Slovenia has made significant progress since last year's Regular Report, notably through the establishment of the Agency for Agricultural Markets and Rural Development. In December 1999 the Government adopted the Rural Development Plan 2000 – 2006, which is in the process of being adopted by the Commission. The Plan provides the basis for the use of SAPARD pre-accession aid in the field of agriculture and rural development and focuses on farm investments, investments in processing and marketing of agricultural and fishery products as well as on economic diversification and improvement of rural infrastructure.

The Agency for Agricultural Markets and Rural Development (AAMRD) was established within the Ministry of Agriculture, Forestry and Food (MAFF) already in 1999. The Agency is responsible for implementing the SAPARD pre-accession fund (see also section on Community aid) as well as national support schemes. After accession, the AAMRD will carry out the tasks related to the Common Agricultural Policy. The Director of the Agency, section heads and heads of services have already been appointed and staff is being recruited. Currently 67 persons are employed by the Agency. Training of staff is currently ongoing.

Concerning the **Integrated Administration and Control System (IACS)**, the current central database on agricultural holdings is being upgraded with the data on the actual land use per land cadastral parcel in order to control area payments. A link with the register of bovine animals is being set up to control animal premiums. However, the two existing databases on animal identification, one for veterinary purposes and the other for breeding purposes, are still not merged. Land use monitoring from digital orthophoto maps is in progress. By the end of April, land use data had been acquired for 1,168 maps out of a total of 3,250.

In the field of **trade mechanisms, quality policy and state aid** in agriculture no particular developments can be noted regarding alignment to the *acquis*.

A direct support scheme for **organic farming** was already introduced in 1999. Furthermore, new ecological measures, such as support for the production of seeds and plant propagating materials for organic farming as well as support for reduction of vineyard erosion were introduced in 2000.

Concerning preparations for Slovenia's participation in the **Farm Accountancy Data Network (FADN)**, some substantial developments have occurred, such as the agricultural census organised in June 2000 in compliance with international standards (FAO and Eurostat) and the registration of Slovenian farms, which facilitates the creation of FADN.

Common Market Organisations

By implementing the Decree on the organisation of the market in cereals for the 2000 harvest, which entered into force on 1 July, the State monopoly in the wheat and rye market was abolished. In the field of **arable crops**, area payments per hectare for growers of wheat and rye were introduced already for the 1999 harvest. For the 2000 harvest, area payments per hectare have been introduced for all other crops. Area payments have been set at the level of SIT 54,000/ha (246.75 euros/ha.) for bread cereals and SIT 27,000/ha (132.37 euros/ha.) for other cereals, oilseeds and vegetables. The Decree on the organisation of the market in cereals for the 2000 harvest fixes the intervention price for wheat and rye. The intervention price has been set at the level of SIT 22/kg (0.11 euros/kg), which is 4.5 % lower compared to 1999 and 26.2% lower compared to 1998.

Furthermore, the criteria for establishing the premiums for suckler cows in the **beef and veal market** as well as for sheep and goats in the **sheep meat and goat meat market** have been aligned with the *acquis*.

In the second half of 1999 the administrative control on prices in the *sugar market* was abolished and sugar and sugar beet prices were therefore liberalised. In 2000, the sugar beet area payment per hectare has remained at the level of SIT 42,000/ha. (205.92 euros/ha.).

In the **fruit and vegetable market**, an area payment per hectare fixed at the level of SIT 60,000/ha. (294.17 euros/ha.) has been introduced this year, in order to support integrated production of vegetables. No specific developments concerning marketing standards or on the recognition of producer groups can be reported.

In the field of **wine**, the list of geographical designations of wine and other grape and wine products was issued in February. Furthermore, rules on the methodology of evaluation of must, wine and other grape products as well as a regulation on Cvicek wine, a traditional recognised denomination, were adopted at the beginning of this year.

Rural development and forestry

In July Slovenia adopted a decree on **less favoured areas**, which specifies the criteria for classifying agricultural land according to the following three categories: mountain areas, areas with other limitations (infertile land that can be rendered fertile only at high cost, demographically weak areas) and areas with specific natural limitations (areas in which floods are frequent, marshland, windy areas, etc). Furthermore, Slovenia has introduced direct area payments for agricultural land in less favoured areas as of the year 2000.

With regard to **agri-environmental measures**, the instruction on good agricultural practice in manuring, based on the Code of Good Agricultural Practice, was adopted in April 2000. In addition, direct support measures for integrated fruit growing and mountain grazing were introduced in 1999.

In the field of **forestry**, rules on the protection of forests were adopted in September 2000.

Veterinary and phytosanitary issues

Continuing alignment of veterinary and phytosanitary legislation and the establishment and equipping of border inspection posts, in particular at the land border with Croatia, the port of Koper and the airport in Ljubljana, were identified as short-term priorities in Slovenia's 1999 Accession Partnership.

The **veterinary** service in Slovenia has been reorganised on the basis of the Act amending the Veterinary Practice Act, which entered into force in January 2000. The Veterinary Administration of the Republic of Slovenia (VARs) became the only authority responsible for administration and inspection activities as well as for authorising laboratories performing tasks of the veterinary institute. The Chief Veterinary Officer of the VARs has been authorised to implement all measures for the prevention of the spread of contagious animal diseases or substances endangering public health. These include the carrying out of safeguard measures and disbursement of compensation for slaughtered animals. Furthermore, the Chief Veterinary Officer became responsible for granting authorisations to official veterinarians. 185 employees of the Animal Health Centres performing veterinary inspections have been re-deployed by the VARs as of January 2000.

At the end of last year, several rules on veterinary-sanitary conditions for the production of foodstuffs of animal origin, veterinary-sanitary inspection and control of food production establishments, veterinary-sanitary checks, the conditions for fitness of human consumption of foodstuffs and raw materials of animal origin were adopted. With these rules Slovenia has partly transposed into its legal order EC requirements on classification of establishments, internal control required within the establishments, establishment authorisation and registration procedures, training of staff, hygienic and technical requirements as well as provisions relating to residues. The VARs re-inspected establishments for the production of foodstuffs of animal origin, classifying them on the basis of the above legislation from late 1999 until May 2000.

Several instructions on the detection and eradication of different animal diseases were issued in October last year. Vaccination against Classical Swine Fever is planned to be discontinued as of November 2000.

Furthermore, Slovenia adopted the Protection of Animals Act in November 1999. The law defines conditions for animal protection in the case of breeding and transport and provides a definition of illegal treatment of animals. Furthermore, a legal basis with regard to veterinary medicinal products was provided with the adoption of the Medicinal Products and Medicinal Devices Act adopted in November 1999.

Two regulations laying down provisions regarding the identification and registration of bovine animals as well as sheep and goats have been issued. An Animal Identification and Registration Service as well as an Autochthonous Breeds Protection Section have been established within the MAFF.

In the **phytosanitary** sector, Slovenia adopted several regulations on quarantine of harmful organisms as regards plant health (harmful organisms). In the field of plant health (pesticides), the competencies of the MAFF and the Ministry of Health have been delimited.

Overall assessment

Slovenia has made considerable progress towards the full implementation of the agricultural *acquis*. The institutional and legislative alignment goes in the right direction. However, further efforts still need to be made, notably as regards the establishment and upgrading of the border inspection posts at the border with Croatia.

The Slovenian **farm structure** is still unfavourable since it is dominated by small private farms cultivating over 90% of agricultural land. This unfavourable farm structure is reflected in the average holding size of 4.8 ha. per holding, lower production and a small share of full-time farms. In this context, denationalisation of **agricultural land** and restructuring is of importance to achieve sustainable development in the agricultural sector and to enable in particular the management of the quota system for milk and of premiums in the animal production sector. By the end of April 2000 only 40% of agricultural property had been returned. Denationalisation of agricultural land thus continues slowly and, at present, there is no timetable for the conclusion of the process.

As regards **horizontal issues**, the implementation of the *acquis* concerning the European Agricultural Guidance and Guarantee Fund is well under way. Some progress has been made in terms of setting up a comparable Integrated Administration and Control System (IACS), but substantial efforts are still required to achieve full compliance with EC requirements in this field. A register of grape and winegrowers has been set up and is regularly updated. It includes data on grape and winegrowers, area under vines, grape and wine crop. Register data is used for administrative checks of the application for subsidies. The setting up of registers and cadastre registers for other permanent crops (orchards, olives and hops) is at an initial stage. The two systems of animal identification and registration still need to be merged.

With regard to the implementation of **Common Markets Organisations**, significant progress has been made. However, further efforts are required to adopt and implement the relevant secondary legislation and to set up the Market Information Systems. Also efforts should be made to align marketing standards for animal products, fruit and vegetables and other specialised crops. Minimum quality requirements for the intervention buying-in of wheat and rye are already set out.

In the field of **rural development and forestry**, Slovenia classified and introduced direct area payments in less favoured areas. The concrete criteria for the classification of less favoured areas will have to be submitted upon accession in the framework of the rural development plans, in order to assess compliance with Community rules. Slovenia also made progress with the introduction of new environmental measures to be included in the agri-environmental programme upon accession. As regards forestry, the adoption of legislation amending the Forest Act and the Agricultural and Forest Funds Act are running behind schedule. Alignment with the *acquis* in this field should not be delayed, since Slovenia is highly forested.

In the **veterinary and phytosanitary sector**, no progress has been made on the establishment and upgrading of border inspection posts with Croatia (Obrezje, Jelsane and Gruskovje) for both veterinary and phytosanitary control. The controls at the EU's external borders constitute a very important aspect of the internal market control system. Preparations for alignment with the *acquis* in this area are time-consuming and should be undertaken well before accession.

Substantial progress has been made in the **veterinary** field with the re-organisation of the veterinary service and the cancellation of the preventive vaccination against classical swine fever which will take effect in November 2000, as well as as regards alignment with EC provisions on establishments for the production of foodstuffs of animal origin, veterinary medicinal products and the identification of animals. The timely adoption of the implementing legislation will now require some attention. Progress has also been made in the area of animal welfare with the adoption of the Animal Protection Act. A study with regard to the protection of animals kept for farming purposes is under way. Furthermore, a legal basis for livestock-breeding will need to be put in place.

Further progress should be made in the **phytosanitary** field as regards legislative alignment. Although several implementing regulations were adopted in the field of harmful organisms, a new legal framework needs to be adopted in line with EC requirements on plant health, plant production products, seeds and propagating materials, forest reproductive material and feeding stuffs. Further efforts have to be made as regards permanent and special health protection and control of harmful organisms as well as harmonised monitoring of pesticide residues in foodstuffs of plant origin and in agricultural products.

With regard to **administrative capacity**, significant progress has been made with the establishment of the Agency for Agricultural Markets and Rural Development. It will carry out tasks for the implementation of the SAPARD pre-accession assistance in the short term and for the Common Agricultural Policy in the medium term. The setting up of new sections within the Ministry of Agriculture, Forestry and Food and the re-organisation of the veterinary service have also improved the administrative capacity in this sector. Further strengthening of the administrative capacity is still necessary, especially in the phytosanitary field.

Chapter 8: Fisheries

Since the last Regular Report, no major legislative developments have taken place in this domain.

The agency for agricultural markets and rural development, that will be responsible for applying the **market policy**, has started to function. Staff appropriations have been approved in the Government Employment Programme, and the 2000 state budget includes the necessary funds for the operation of the agency.

As regards **resources management, inspection and control**, the staff dealing with fisheries in the Ministry of Agriculture, Forestry and Food has been reinforced. Preparatory steps have been taken for the establishment of an inter-ministerial centre, in particular decisions have been taken on the location of the centre's various facilities.

In the field of **structural actions** (including fleet registration), some progress has been made in preparing the fishing vessels register especially the registration of the largest vessels and installation of software.

Slovenia provides **state aid to the fisheries sector** in the form of a pension and invalidity insurance scheme for fishermen. In March, a decree was adopted on financial interventions for the conservation and development of agriculture and food production for the year 2000. It replaced previous forms of price subsidies with structural measures.

Overall assessment

Slovenia has achieved a significant level of progress in this area.

Slovenia's legislation and administrative structure are nearly able to meet the requirements of the Common Fisheries Policy. However, the Fisheries and Aquaculture Development Strategy, which will provide the basis for implementing the structural actions of the Common Fisheries Policy, notably the management of the fleet capacity, still needs to be finalised. The Maritime Code, which will form the legal basis for aligning the register of fishing vessels with the *acquis*, has not yet been adopted by the Parliament.

Further efforts are expected, notably the adoption of amendments to the law on sea fisheries and to secondary legislation, the rationalisation of monitoring and control through the legal establishment and resources endowment of the inter-ministerial centre, and the completion of a fishing vessels register in line with the Common Fisheries Policy.

It should be noted that Slovenia has a fisheries agreement with Croatia, but that the possibilities provided by that agreement are not being used, even though it is automatically extended each year.

Chapter 9: Transport policy

Progress in this chapter has been uneven since the last Regular Report.

As regards **horizontal issues**, Slovenia has approved the final TINA report that should form the basis for extending the trans-European networks to Slovenia.

Progress has been made at a steady pace in **land transport**. As regards safety, full alignment was achieved with the issuing of new legislation. This includes secondary legislation implementing the law on transport of dangerous substances adopted in January, amendments to the rules on weights and dimensions, as well as amendments to the road transport safety act adopted in June. The latter amendments also provide for an appropriate payment system relating to annual road usage refund fees, adjust the training programme for driving examiners, envisage improvement of traffic flows and road transport safety and align the performance of roadworthiness tests for specific vehicles. In road transport, adjustments were introduced in secondary legislation as regards the granting of permits for international freight, and as regards tolls. The Ministry's staffing was reinforced in that area. Slovenia initialled in April the Multilateral Interbus Agreement on occasional Passenger Transport by Bus, but signature is still pending. In the railway sector a significant legislative step has been taken with the adoption of the law on railways in November 1999. This law defines the public service obligations, determines infrastructure access conditions and foresees the restructuring and privatisation of Slovenian Railways. The law also establishes a Railway Traffic Directorate, for which internal and budget appropriations for the recruitment of 27 staff in 2000 have been approved. An act on contracts in railway transport was also adopted. No major development was recorded as regards inland waterways and public services obligations. However the overall level of state aid to the transport sector continues to decrease noticeably.

Further alignment was achieved in **air transport** with the adoption in February of the Act on Obligatory and Other Legal Relations in Aviation. It regulates liabilities and contractual relations in the sector. Secondary legislation was also passed in the areas of technical harmonisation, as regards specifications of navigation equipment and systems and crew licensing, as well as on noise reduction. Negotiations between the EC and Slovenia on the multilateral agreement establishing a European Common Aviation Area (ECAA), which will result in a significant alignment with the *acquis* prior to accession, were concluded at the end of 1999 with the signing of the bilateral country protocol. Budget appropriations for the recruitment of 39 staff by the civil aviation authority during 2000 were also adopted.

In **maritime transport** the alignment of legislation on maritime safety is a short-term priority under the 1999 accession partnership. Secondary legislation in that area was passed notably as regards the institutions entitled to perform safety checking of ships, in view of Slovenia's ratification of the Paris Memorandum of Understanding (MoU) on Port State Control in March 2000. The MoU's Advisory Board granted to Slovenia the status of cooperating member of the Paris MoU. The Government adopted a decree on the reduction of port fees for segregated ballast tankers, as well as rules on the examination of pilots. The maritime transport administration is being reinforced with budget appropriations to recruit seven more staff in 2000. No particular developments were recorded as regards non-safety aspects.

Overall assessment

Slovenia is to a large extent able to meet the requirements of the EC transport *acquis*. A large part of the legislative framework is in place, however, the framework legislation in the aviation and maritime sectors is still in the parliamentary process. Some efforts are also needed on road transport. Slovenia's administrative capacity has already reached a good level even if reinforcements are needed in specific areas. As a transit country, Slovenia participates actively in the development of Pan-European transport corridors V and X. It is engaged in a major investment and upgrading programme of its road and railway networks, notably on the basis of the annual financing plan for the national plan for highway construction.

The **horizontal issues** of transport raise no particular concern in the case of Slovenia. It is in full compliance with summertime arrangements, and alignment with EC provisions regarding the trans-European networks requires only specific efforts concerning the framework for financing and the high-speed train interoperability.

In **land transport**, progress towards alignment is already well under way. However full alignment requires the adoption of a new act on road transport, of amendments to the road transport safety act, and of a new road transport contract act. The effective implementation of the present *acquis* providing for liberalisation in the railways sector requires special efforts, including the supervision and the accounting separation of infrastructure and operations activities, even though a general legislative framework is now in place.

Full alignment of the legislative framework for **air transport** requires the adoption of a new act on air transport, which is still in parliamentary procedure, and the issuing of the secondary legislation needed for implementation. No major practical difficulties are foreseen provided the reinforcement of the civil aviation authorities is completed.

Slovenia displays a good record in the field of safety of **Maritime transport**. However, the adoption of a comprehensive maritime code has been delayed further in the parliament and some related secondary legislation is still missing. Port State control and flag safety records continued to meet the EU best practice levels in 1999.

Chapter 10: Taxation

Since the last Regular Report there has been some progress in this field.

In the field of **indirect taxation**, implementing regulations concerning the Value Added Tax Act and the Excise Duty Act, which were both enacted in July 1999, have been adopted since the last Regular Report. These serve to clarify the implementation of these acts in the tax system. Furthermore, a Decree on Determining the Excise Duties for Spirits Produced by Small Distilleries and for Cigarettes has been adopted.

Slovenia has reinforced its administrative capacities to ensure the efficient implementation of the Value Added Tax Act and the Excise Duty Act as well as **administrative co-operation and mutual assistance**.

The Tax Administration Office has been reorganised in order to be able to implement the Value Added Tax Act effectively. A Central Liaison Office for international exchange of information and new departments for tax accountancy and for enforcement have been established. The number of employees was increased from 2,376 to 2,505 in 1999. Furthermore, a certification exam for tax collectors was introduced in 1999.

The Customs Administration has set up an Excise Duty Department with a division for administrative co-operation and introduced a new method for recording data on registered taxpayers through tax numbers in January 2000. In 1999, the Customs Administration also introduced software support for uniform implementation of customs procedures at the borders.

In the sector of **direct taxation**, no developments have taken place.

Overall assessment

Slovenia is already very advanced in this area. It took a substantial step forward towards alignment with the introduction of the key legislation concerning VAT and Excise Duties in July 1999. However, some minor adaptations are still necessary.

Substantial efforts have been made to strengthen the administrative capacity in the tax and customs administrations.

Despite Slovenia's commitment under the Europe Agreement to end the duty-free status of the shops on its land borders by July 1998, this still remains to be implemented. This has also been identified as a priority in the Accession Partnership. The Government has submitted to the parliamentary procedure amendments to the Law on special measures of duty free shops' operation monitoring and amendments to the customs law, which would enable it to end the duty-free status of these shops. However, these amendments have not been adopted so far.

Chapter 11: Economic and monetary union

A detailed assessment of Slovenia's economic policy in its various aspects has been given above, in the chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis* – as defined by title VII of the EC treaty and the other relevant texts – which candidate countries should implement by accession at the latest. These concern 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. Liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, has been covered in the section on *Chapter 4 – Free movement of capital*.

Since last year's Regular Report, Slovenia has made some progress towards the adoption of the *acquis*.

With the adoption of the new Pension and Disability Insurance Act and an Insurance Act, in December 1999 and January 2000 respectively, Slovenia has taken steps towards prohibition of **privileged access of the public authorities to the financial sector**. Actual compliance in this area needs to be checked further.

Regarding **independence of the Central Bank** and **prohibition of direct financing of the public sector**, no new legislation has been adopted since the last Regular Report.

Overall assessment

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

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

However, in some areas Slovenia does not yet comply with the *acquis*. For instance, the current Bank Act of Slovenia provides for the possibility for the Central Bank to grant short-term loans to the government, even though this provision has never been used. The Bank of Slovenia is not yet fully financially independent, as it has an obligation to consult the parliament on its financial plan and on its annual statement of accounts. An amendment to the Central Bank law addressing these issues was presented to the Parliament in July 2000.

The privileged access of the public authorities to financial institutions has been partly abolished. However, it still remains in the area of investment funds. However, further legislative changes regarding the investment rules of investment funds and management companies are required to ensure compliance in this area.

Therefore further progress is required in these fields.

Chapter 12: Statistics

Slovenia has already achieved a relatively good level of compliance and in the last year progress could be recorded in a number of areas.

The Statistical Office of the Republic of Slovenia (SORS), which is the basis of the **statistical infrastructure**, continues to be the central statistics producer within the country, co-ordinating other bodies active in the area of statistics production. The administrative structure was reinforced during 1999 with 26 new employees and during 2000 with 15 new employees. In total the SORS now has 300 employees.

Progress has been made in a number of domains. These include the adoption of several EC classifications in national versions and their mandatory implementation in surveys, including use in other administrations. Co-operation with other administrations in several statistical domains is fruitful and contributes to reducing the cost and to increasing the quality and timeliness of statistics production.

The situation concerning production of **demographic and social statistics** including labour force surveys, business registers and other register-based statistics is basically good and further progress has been made since the last Regular Report. In February 2000, a Law on a Census of Population, Housing Fund and Agricultural Farms was adopted.

As regards availability of statistics at **regional** level, the results of the agricultural census of 2000 will serve to introduce these improvements. The regional breakdown of the country and regional statistics linked to it need further clarification.

Concerning **macro-economic statistics**, nearly complete national accounts are produced including quarterly and financial accounts. However, quality improvements and some methodology using the European System of Accounts of 1995 (ESA-95) are still to be implemented. Developments are expected in fixed capital statistics and quarterly accounts. Gross Domestic Product coverage (hidden economy) and other quality improvements in national accounts are a constant challenge. Transparency in the field of macro-economic statistics still increases trust in them.

Overall assessment

The Statistical Office in general has appropriate infrastructure, in terms of personnel, information technology and, to a certain extent, finances. This fact, together with the generally positive situation, will outweigh the proportionally large burden of implementing the full *acquis* in statistics, as it appears for a small country.

Chapter 13: Social policy and employment

Some progress has been made in terms of transposition of the *acquis*, in spite of the lengthy legislative process.

No significant progress has been achieved in the area of **labour law**, which is of fundamental importance for the alignment with the *acquis*.

Equality of treatment is a horizontal theme for Slovenia, which is dealt with in all changes to legislative measures in the social area. In addition to this, the Government pursues active policies for women through the Women's Policy Office. In 1999 this Office carried out an important campaign in the field of prevention of violence against women.

Following the adoption in June 1999 of the **Health and Safety** at Work framework law, eight executive acts transposing EC provisions on health and safety at work have been adopted since the last Regular Report.

In compliance with the resolution of the Association Council on **public health**, Slovenia is taking part in several Community programmes (*see part A. on bilateral relations*).

In line with the provisions on the **Social dialogue** in the Amsterdam Treaty, Slovenia has increased the involvement of the social partners in the preparation of legislation in the field of employment and social affairs through the Economic and Social Council, which provides a framework for tripartite dialogue. The social partners are encouraged to be active in the areas of professional training and in the preparation and implementation of regulations translating EC requirements into Slovenian legislation. The Government has involved the social partners in the discussions and the drafting of national programmes as in the case of the National Employment Action Plan for 2000 and 2001 and the Strategic Development Aims for the Labour Market until 2006. However, no specific progress has been observed with regard to bipartite social dialogue, especially at sectoral level, but also within enterprises.

In the area of **Employment Policy**, the Government adopted a document “Strategic development goals for the labour market up to 2006, employment policy and its programme of fulfilment”. A National employment action plan for 2000 and 2001 was adopted at the end of 1999. It is based on four pillars: increasing the employability of the population, stimulating private business initiative, enhancing companies and worker flexibility and creating equal employment conditions for men, women and various groups of disabled people. Slovenia carried out a Joint Employment Policy Review with the Commission, leading to a document entitled the ‘Joint Assessment of the Employment Policy Priorities’ which was signed by the Commission and Slovenia in July 2000.

Preparation for the **European Social Fund** to date has taken the form of seminars and training courses and the start in February 2000 of a twinning project.

The Law on pension and disability insurance entered into force in January 2000. It is based on three pillars and will be implemented gradually. A law on calculating financial obligations of the state towards the Pension and Invalidity Insurance Fund was adopted in August 2000.

As regards **social protection**, the Programme to Combat Poverty and Social Exclusion was adopted in February 2000 followed in March 2000 by the adoption of the National Social Protection Programme, which will run until 2005.

Overall assessment

A large part of the *acquis* in the field of labour law will only be transposed into Slovenian legislation with the adoption of the Employment Relationships Act, which is still in Parliament (already submitted in October 1997). The parliamentary procedure is also very slow in adopting for instance the Parenthood Care and Family Benefits Act (submitted in July 1998), also in its second reading.

Since 1994, employment is slowly increasing. Employment rates have been rising to around 65% in 1998. Slovenia has made substantial progress in transforming its labour market towards a market-oriented economy. The Joint Assessment paper has identified key challenges for employment policy, such as an active and preventive approach, improvements in the educational system and a review of the tax and benefit systems with a view to increasing incentives to work and create jobs.

There also continues to be a need to strengthen the public employment service, as well as the public administration and enforcement structures in most areas of social policy and in particular in the areas of health and safety at work, and labour market and employment policies. The institutional, judicial and administrative capacity to implement co-ordination rules in the field of social security of migrant workers needs to be improved further through strengthening of the social security administration and the further training of officials.

The Ministry of Labour, Family and Social Affairs will need to set up an organisational structure necessary for the management requirements of the future European Social Fund type programmes. This will require additional staff.

As reported last year, although a number of transposing regulations have been adopted in the meantime, substantial work remains to be done in the area of Health and Safety at work with respect to important parts of the *acquis*.

Activities would be needed at intermediary levels to structure social dialogue and prepare social partners better, especially at the sectoral level. This development should be supported through strengthening of the government's administrative capacity on social dialogue.

Legislative transposing of the EC Directive based on Article 13 of the Treaty relative to discrimination on the grounds of race or ethnic origin will have to be introduced and implemented. The current fight against discrimination falls under the competence of several institutions, and Slovenia will in the future appoint a co-ordinating body to combine the activities of state institutions and non-governmental organisations in the field concerned.

Chapter 14: Energy

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

Progress was made in the area of **security of supply** with the adoption of secondary legislation implementing the Amendments to the Act on Commodity Reserves in December 1999 and March 2000. These decrees define a public policy for obligatory oil stocks, establish a specific public institution in this field, and foresee the collection of a special fee on petroleum products aimed at financing the creation of the stocks. While the government confirmed its programme to reach 60 days of stocks by 2003 and 90 days by 2005, calculations using the EC method indicate that the current level of oil stocks was only at 18 days. In order to fulfil the programme, the Government was authorised by the relevant parliamentary body to negotiate with foreign countries the use of their oil stocks facilities, and decided to initiate a tender in order to rent stocking facilities from private operators.

Slovenia has maintained its steady progress as regards energy **competitiveness and the internal energy market**. The main secondary legislation needed for the implementation of the energy act in this respect was passed in May. It includes decisions to establish the Energy Agency as of October 2000, the appointment of its director and the decision to recruit its employees by the end of 2000. This independent agency will be competent for both electricity and gas, and will have powers notably on prices, dispute settlement, and licenses. The domestic market will be opened for electricity produced in Slovenia in April 2001, and for electricity generated abroad by January 2003 at the latest. Eligible consumers will be those consuming more than 41kWh per year (60% of the market). Opening up of the gas market starts in 2003 for all consumers with an annual consumption of 25 million m³ or more, and for all electricity producers using natural gas for the production of electricity (45% of the market). Changes in the model for setting gasoline prices were introduced in April and in September, these establish a closer link with world prices. However, all price distortions have not yet been eliminated.

In the field of solid fuels, Slovenia adopted an act foreseeing the gradual closure of the Trbovlje-Hrastnik mine. This adds to the decision to close down the others mines, three of them by July 2002. State aid to the sector has grown over the recent years, although in 1999 such aid was solely devoted to the closing down of mines and entailed no operating aid.

Slovenia enacted a decree based on the mining act of June 1999 which aimed at fully transposing the directive on hydrocarbon licensing. It also reinforced the staffing of the relevant Directorate of its administration.

Limited progress was achieved since the last Regular Report in the area of **energy efficiency**, although Slovenia conducted information actions and provided a number of financial incentives to that end.

As regards **nuclear energy**, Slovenia's nuclear reactor is a PWR unit of Western design located at Krško (unit 1).

Slovenia has committed itself to reporting twice a year to the EU on its safety programme. Slovenia continued the safety upgrading programmes for the Krško nuclear power plant. It installed new steam generators in the plant in June. A new full-scope simulator was installed in April and is operating with the licenses needed, allowing training to proceed. The first phase of extensive geological research to re-evaluate the seismicity of the ground at the Krško nuclear power plant has been completed and the next phase is on-going.

No major developments occurred in the area of spent fuel storage. Slovenia had returned all spent fuel from its research reactor to the United States by July 1999. Slovenia should rapidly settle with Croatia the consequences of the dual ownership of the Krško plant, particularly on matters such as nuclear waste storage.

Overall assessment

The overall situation in the energy sector in Slovenia is good.

With the energy act, the mining act, the amended commodity reserves act and the subsequent pieces of secondary legislation Slovenia has laid down most of the legislative framework for implementing the EU's energy policy and for creating the

necessary institutions. However, some further legislative work is still needed, notably in the areas of energy efficiency and nuclear energy.

The proper functioning of the newly created institutions, the Energy Agency and the public institution for oil stocks will be critical for the fulfilment of the approximation programme that Slovenia has set itself. This concerns in particular the achievement of the minimum level of compulsory oil stocks, and the gradual liberalisation of the energy market in 2001 and 2003. The restructuring and privatisation plans in the sector should be steadily brought forward, including decisions concerning the Nafta Lendava refinery. Remaining price distortions, particularly in the electricity sector, should be eliminated.

No major problems are foreseen for Slovenia to comply with the Euratom provisions, provided the legislative programme is fulfilled and provided that due attention is given to preparing the implementation of Euratom safeguards.

As regards the issue of nuclear energy, the EU has repeatedly emphasised, most lately at the European Council in Helsinki, the importance of a high level of nuclear safety in the candidate countries in the context of the Union's enlargement. The continuation of the upgrading programme at Krško is therefore essential. Better employment conditions for the staff of the safety authority would help it to retain its skilled personnel. Longer term solutions for spent fuel and nuclear waste will have to be found.

Chapter 15: Industrial policy¹³

Since the last Regular Report, Slovenia has made some progress in the field of industrial policy.

Slovenia's **industrial policy**, based on the "Strategy for Increasing Competitiveness of Slovenian Industry" adopted in 1996 and updated in 1998 and 2000, is in line with the principles of EC industrial policy. The emphasis is on promoting competitiveness in an open market, on increasing the value added per employee, on promoting business infrastructure and entrepreneurship, on developing industrial clusters, on internationalising companies and their strategies and on focusing on the new technologies. The **restructuring** of Slovenian industry, in particular the textile and footwear industry and steel industry, has been a core element in this strategy. The Accession Partnership identifies promotion of competitiveness through market based enterprise restructuring as a short-term priority, and Slovenia has made some progress in this respect. An important dimension of the industrial policy is the control of state aid (*see also Chapter 6 – Competition*).

In the beginning of 2000, Slovenia performed a benchmarking exercise on the competitiveness of its industries compared with that of the EU and other OECD Member States. This action made it possible to identify strengths in promising sectors, such as biotechnology.

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*)."

After consultations with the Commission, the Slovenian Government approved an amended steel restructuring programme in September 2000 in order to comply with Protocol 2 of the Europe Agreement and submitted it to the Commission in October 2000. This programme includes business, financial and personnel restructuring of the core companies, a liquidation plan for non core business companies, definition of the privatisation process, an approach for resolving the issue of financial liabilities, the envisaged scope and scheme of state aids and tackling the social and ecological consequences in the regions in which the steel industry is predominant.

Two programmes have been adopted to ensure sustainable development and enhanced competitiveness in the textile and footwear sectors. The total funding for 2000 amounts to € 5.6 million for the textile industry and € 4.3 million for the footwear industry. A Programme Council comprising ministries, experts and social partners has been established to ensure co-ordination and monitoring of the programmes.

Overall assessment

Slovenia has made substantial progress in this area over the past few years and has used innovative methods, especially in the benchmarking of different industrial sectors. This exercise is in line with recent initiatives taken at the EC level in the field of enterprise policy and has demonstrated the degree of progress Slovenia has made in this area.

The 'Strategy for Increasing the Competitiveness of Slovenian Industry' updated in 2000 aims to improve the general business environment and the competitive position of Slovenian industry by focusing on Research and Development, export development, and the promotion of Foreign Direct Investment. Its principles are in line with the *acquis*. The policy of supporting industrial clusters (industries concentrated in a given region) has been successful.

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

Furthermore, there has been some progress in the **restructuring and privatisation** of the industry. The Commission is currently examining the compliance of the steel restructuring programme with Protocol 2 of the Europe Agreement. The textile and footwear sector plans foresee no capacity increases and contain welcome measures. Nevertheless, the role of the public sector in industry is still too important and therefore further privatisation is necessary.

The administrative capacity in the field of industrial policy seems to be satisfactory. However, after the formal ending of the privatisation process in 1998, the role of the Slovenian Development Corporation (SRD), which manages a number of companies due to be restructured, privatised or liquidated, is becoming increasingly unclear.

Chapter 16: Small and medium-sized enterprises¹⁴

Slovenia has made some progress since the last Regular Report as regards SME policy, in particular on the development of support schemes and on the improvement of the business environment.

Slovenia's **SME strategy** is based on four pillars: small businesses and accession to the EU, support infrastructure for small businesses, a microcredit scheme and an information system. This strategy addresses important issues such as the development of the enterprise sector, regional economic and social stability, job creation and competitiveness of SMEs. It puts together all the existing means of support for SMEs. Promotion of development of SMEs has been identified as a priority in the Accession Partnership.

The Small Business Development Act was modified at the beginning of 2000. The Small Business Development Fund is now managed within the Ministry of Small Business and Tourism.

Slovenia has attached priority to the development of an efficient administrative **environment for enterprises**. In November 1999, the Ministry of Small Business and the Ministry of Labour developed an anti-bureaucracy programme in the framework of the National Action Plan for Employment (2000-2001). This is based on four pillars: legislation, local administration, information and entrepreneurial environment. It addresses issues such as the costs and the time required for setting up a new business, the flexibility in the labour legislation, the regulation and information, and the access to technology for SMEs.

Three Euro Info Centres have been opened in Koper, Ljubljana and Maribor. They operate under the co-ordination of the Small Business Promotion Centre.

Overall assessment

Slovenia's SME policy is overall aligned with the principles of the EC enterprise policy. SMEs account for 58% of employment in Slovenia. However, their competitiveness should be improved. Support mechanisms should be oriented towards innovative, development-oriented and exporting SMEs. Actions to improve the financial environment for SMEs have not been very successful in the recent past. The emphasis put on access to finance needs to be strengthened further in the strategy to support SMEs. Slovenia has been developing an efficient network of business incubators.

The **definition of SMEs** should be aligned with the EC definition with regard to the maximum number of employees by type of company.

The administrative capacity in the field of SMEs appears satisfactory. In 2000, the Ministry of Small Business and Tourism has increased its staff. Nevertheless, Slovenia has to ensure proper co-ordination between all the related bodies in order to be able to implement the SME policy effectively. This concerns especially the Ministry of Small

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

Business and Tourism, which is responsible for small companies and the Ministry of Economic Affairs, dealing with medium sized enterprises.

Chapter 17: Science and research

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

In November 1999 the Act on Support of Companies Developing New Technologies and Setting up and Managing their Development Units in the Period from the Year 2000 – 2003 was adopted. This act regulates the provision of financial support to companies, sole proprietorships and individuals in developing new technologies and establishing and operating their development units in the time period 2000 – 2003.

Since its association with **the Fifth Framework Programme**, as well as the Euratom Framework Programme, in August 1999, Slovenia has established the National Contact Point (NCP) system and appointed experts to the Programme Committees. Initial results for the first year of participation in these programmes have been good.

Overall assessment

On the whole, Slovenia should have little difficulty in taking on the *acquis* in the area of science and research. Nevertheless, further institution building in this field is to be welcomed, particularly in the areas of innovation and transfer of results, and in plans to strengthen scientific autonomy and to encourage equipment renewal.

The level of the existing gross domestic expenditure on research and development (1.4% of GDP in 1998) approaches the EU-15 average of 1.9%. The new Act is a valuable effort to stimulate the business expenditure on research.

After its successful launch, participation in the Community programmes could be further enhanced through continuing promotion of participation of private companies, including SMEs.

Chapter 18: Education and training

Since the last Regular Report, Slovenia has made progress in this area.

The Agencies for **Community programmes** Leonardo da Vinci, Socrates and Youth for Europe programmes have been established with appropriate staff. The Association Council adopted in July 2000 a decision allowing participation in the second phase of the Socrates and Leonardo da Vinci programmes (2000-2006), and in September 2000 a decision allowing participation, also from 2000, in the new Youth Programme which incorporates European Voluntary Service activities.

Regarding **non-discrimination toward EU citizens**, Slovenia adopted the Higher Education Amendments Act in December 1999. These amendments aim at granting EU citizens equal treatment in Slovenia as Slovenian nationals upon accession.

Regarding the reforms in the field of training and youth, amendments to the law on vocational and professional education were enacted in May 2000. Furthermore, the law on the education and treatment of children with special needs was enacted in June 2000.

This law regulates education, counselling, guidance and treatment measures for children, minors and younger people (university programmes) with special needs.

A new Unit for European Affairs has been established within the Ministry of Education and Sport to enhance co-operation with EU institutions.

Overall assessment

On the whole, Slovenia has achieved substantial progress so far. Participation in the relevant Community programmes is satisfactory and the National Agencies are functioning well. However, additional staff will be needed in the National Agencies for progressive participation in the Community programmes.

The field of education, training and youth is fully in line with the *acquis*, including with the **directive on the Education of Children of Migrant Workers**. In the past few years Slovenia has made significant progress in re-orienting the education and training system to make it suitable for a small open market economy aiming at international competitiveness.

Chapter 19: Telecommunications and information technologies

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

Slovenia has made some progress since the last Regular Report towards alignment of the *acquis* regarding **liberalisation of the telecommunications markets**. Decrees have been adopted on granting concessions for the use of radio-frequencies for mobile telephony services and for paging services as well as on technical requirements for cellular mobile radio systems. Four licences have been issued for the provision of Internet services.

A tender for a third mobile telephony network has been published with the objective to issue a licence and start operations early next year.

Furthermore, the government has introduced a decree modifying the tariff system for fixed voice telephony by rebalancing certain prices and by introducing only one tariff zone for the whole country. The rates of calls to neighbouring countries and the installation charges are substantially above the EU average, whereas the rates for calls within Slovenia and the monthly rental charges are well below EU average.

In the field of **regulatory framework** the Telecommunication Act is still not in force.

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

Overall assessment

Slovenia has a relatively well developed telecommunications sector and there have been progressive steps towards implementation of the *acquis*. However, the legal framework, which should be in place by the time of full liberalisation of the telecommunication markets in January 2001, is still incomplete. Therefore, it is essential that Slovenia accelerate the pace of legislative alignment, especially by speeding up the adoption of

the Telecommunication Act, which is still in parliamentary procedure. The adoption of the law and the establishment of an independent regulatory authority have been identified as priorities in the Accession Partnership. Alternative infrastructures such as Cable TV networks can be used for the provision of Internet services only on the basis of temporary licences.

The preparation for the establishment of an independent National Regulatory Authority (NRA), foreseen in the draft telecommunications law, needs to start as soon as possible. It should be operational before the full liberalisation of the sector foreseen for the beginning of next year in order to ensure the timely implementation of the *acquis*.

The National Programme on Telecommunication has been adopted by the Government, marking further progress in the application of a market-oriented policy. An increase in the staff of the Ministry of Transport and Telecommunication is foreseen in accordance with this programme. Nevertheless, the strengthening of resources in the relevant Ministry should remain an urgent priority.

The field of postal services is regulated by the Postal Service Act of 1997, which has brought Slovenia's legislation partly into line with the *acquis*. However, further steps are required to enable full liberalisation in providing postal services. In addition, an independent regulatory authority has to be established before liberalisation to ensure smooth implementation and effective enforcement of the *acquis*.

Chapter 20: Culture and audio-visual policy

Limited progress in alignment with the **audio-visual** *acquis* has been made in Slovenia since the 1999 Regular Report.

A Media and Audio-visual Culture Department has been set up within the Ministry of Culture. It will have an overall coordinating role between the different administrative bodies. In co-operation with the Broadcasting Council, the Department conducts administrative supervision and inspection and drafts and implements legislation in the media and audio-visual field.

Overall assessment

On the whole, Slovenia has made limited progress in alignment with the Community *acquis* and further efforts are required in this area. The Mass Media Act, which is to provide alignment with the Television without Frontiers Directive and to set the legal framework for Slovenian media in general, was due to be adopted by the end of 1999, however, it is still in parliamentary procedure. Hence, Slovenia has not met the short-term priority of the 1999 Accession Partnership for completion of alignment with the audio-visual *acquis*. The draft mass media law is to provide alignment with the Television without Frontiers Directive and to set the legal framework for Slovenian media in general.

Slovenia has been a party to the Council of Europe Convention on Transfrontier Television since November 1999 and has also ratified the Protocol amending the above Convention.

The Broadcasting Council has limited powers for effective monitoring: this weakness is due to be addressed in the amendment to the Mass Media Act.

In addition, the division of responsibilities between the Broadcasting Council and the Telecommunication Agency (to be established with the adoption of telecommunication law) will need to be clearly defined in the area of supervision of audio-visual content and the attribution of radio frequencies.

It is too soon to assess the effectiveness of the new Media department within the Ministry of Culture at this point.

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

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

The **territorial organisation** in Slovenia is based on 12 units similar to NUTS III statistical units. There is no intermediate authority between the state and the municipal levels. However, Slovenia proposed a new NUTS classification in March 2000 with the adoption of the Decree on the Standard Classification of Territorial Units. The new classification divides Slovenia into two regions, similar to NUTS II, namely an urban region comprising the capital Ljubljana as its centre and the rest of Slovenia. According to the Slovenian authorities, the two areas are characterised by different types of development problems: the metropolitan area is densely populated and has a GDP per capita of around 87% of the EU average. The peripheral area has a GDP per capita of approximately 59% of the EU average and faces increasing unemployment and depopulation problems. This classification was officially presented to the Commission in May, but remains to be agreed.

With regard to the **legislative framework**, Slovenia adopted six regulations in May/June this year implementing the Act on the Promotion of Balanced Regional Development of 1999. These concern the organisation and tasks of the National Agency for Regional Development and the Regional Development Agencies, the minimum obligatory structure of regional development plans, the establishment of the Structural Policy Council, the criteria for defining territories with special development problems as well as criteria for granting development incentives.

In June 2000, the Government adopted a Decision on the establishment, composition, organisation and tasks of the Structural Policy Council. The Structural Policy Council is an inter-ministerial co-ordination body responsible for programme co-ordination at national level.

Concerning the **preparation for programming**, the Preliminary National Development Plan (PNDP) 2000 – 2002 was approved by the Government in November 1999. This is an intermediate step towards the development of a comprehensive and detailed National Development Plan 2000 – 2006 (NDP). The preparation of the NDP is progressing well.

The National Agency for Regional Development (NARD) was officially established in September 1999 by the Act Amending the Organisation and Competence of Ministries for **co-ordinating** the government's policy for regional development. In May 2000, Slovenia adopted the Rules on the composition, organisation and tasks of the Regional Development Agency. The NARD is part of the Ministry for Economic Relations and

Development and currently employs 20 people. The NARD is responsible for the actual implementation, **monitoring and evaluation** of programmes. At regional level, so far only two Regional Development Agencies, which will function under the guidance of the NARD, have been established. A total of 12 agencies, one per future NUTS III region, is envisaged.

Concerning the development of the **financial and budgetary management**, Slovenia adopted two decrees on the basis of the Law on Public Finance of 1999: a decree on the basis and procedures for the preparation of the State Budget proposal and the Rules on common criteria for establishing and implementing financial control with direct budgetary recipients.

Furthermore, the Accountancy Act, which contains special provisions regarding accounting control and internal audit of legal persons, entered into force in January 2000 and a Decree on general accreditation conditions for payment agencies in Slovenia using EC funds was adopted in December 1999.

Overall assessment

In the last few years, Slovenia has developed the necessary structures for the implementation of the Structural Funds after accession. However, some issues still remain to be tackled.

The new territorial division is a source of concern, since it is not clear on which analytical requirements and administrative structures the division into these two statistical units is based. This division is being discussed with the Commission. Also, Slovenia should avoid establishing an overly complex administrative framework.

The legal basis for regional and structural policy, the Act on the Promotion of Balanced Regional Development and the Law on Public Finance, is in place. The Law on Public Finance introduced the four-yearly budgetary programming principle, which will already be applied to the State budget. The secondary legislation implementing the Regional Development Act was adopted in May/June this year.

Three key institutions are implementing structural policy at the national level: the National Agency for Regional Development, the Structural Policy Council and the Fund for Regional Development and Preservation of Rural Settlement.

Now that these institutions have been established, further efforts are required in setting up the appropriate structures necessary to improve the co-ordination among national ministries and with regional and local partners.

With the establishment of the NARD Slovenia has entered a new phase of preparation for Structural Funds, in which Slovenia will have to develop structures for monitoring, evaluation and financial control. In this context Slovenia will have to put emphasis on the strengthening of human resources.

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

Chapter 22: Environment

Since last year's Regular Report, substantial progress has been made in Slovenia concerning the formal alignment of national legislation with the environmental *acquis* especially in the areas of horizontal legislation, waste and chemicals. Progress has also been made in the drawing up of implementation programmes for various directives.

In the field of **horizontal legislation**, Slovenia adopted a Decree in January on categories of activities for which environmental impact assessments are mandatory. This Decree is enforced through the Ministry of Environment and Spatial Planning as well as municipalities. Slovenian legislation on environmental impact assessment is now, except for one minor requirement, in line with the *acquis*. Slovenia has therefore fulfilled this short-term priority of the Accession Partnership 1999 for the most part.

With regard to the protection of **air** against pollution caused by volatile organic compound emissions in storage and distribution of liquid fuels, alignment has been achieved with the entry into force of the Transport of Dangerous Goods Act in January. The Act includes provisions for ensuring that road tankers transporting petrol are tested for vapour tightness.

Several rules on **waste** and hazardous waste management have been adopted in order to complete transposition of the relevant Community framework directives. In addition, rules on the disposal of PCBs and PCTs, the labelling of batteries and transboundary movements of waste have been adopted since the last Regular Report. Furthermore, the Government approved legislation concerning waste from the titanium dioxide industry, which bring the legislation into line with the EC directive. Significant progress has also been made with transposition of the landfill directive for which certain rules were adopted early in 2000 aiming at full transposition.

In the field of **water**, several regulations were adopted at the beginning of this year, in order to limit values of emissions in the discharge of waste water from the food processing industry to urban waste water treatment plants. The Operational Programme for the Collection and Treatment of Urban Waste Water with the Water Supply Projects Programme, which determines the timetable for implementation of measures included in the National Environment Action Programme, was adopted in November 1999. The Register of agglomerations built-up areas – areas where the population and/or economic activities are sufficiently concentrated for urban waste water to be collected and conducted to an urban waste water treatment plant – has been drawn up. Also, the collection of data on industrial waste water as defined in the directive on urban waste water has been concluded. Several regulations were also adopted to limit discharge of dangerous substances into surface waters. Rulings concerning good agricultural practice and manuring were adopted in April in the field of nitrate pollution. In the field of drinking water the amendments to the Rules on the sanitary suitability of drinking water as well as rules on monitoring of pesticides and were adopted.

In the field of **nature protection**, the Act Ratifying the Convention on International Trade in Endangered Species of Wild Fauna and Flora was adopted in December 1999. Furthermore, the Law on the Ratification of the Convention on Plant Protection was adopted in August.

With regard to **industrial pollution and risk management**, several regulations supplementing the Decree on the emission of substances into the atmosphere from waste

incineration plants were adopted in March. No progress has been made on laws required for compliance with the IPPC and Control of Major Accident Hazards directives.

Several regulations necessary for the implementation of the *acquis* relating to **chemicals** have been adopted since the last Regular Report. The new legislation concerns rules on trade in dangerous chemicals, examinations of health inspectors, data on poisonings, monitoring of pesticides in drinking water and a decision on granting authorisation to the Institute of Public Health. The Institute also has nine regional branches and covers, among other activities, issues related to hygiene and environmental health.

The National Chemical Bureau was established pursuant to the Chemicals Act of 1999. Furthermore, a team for assessing chemical risks, which consists of experts of the Chemical Bureau and other institutions, was set up.

The Animal Protection Act, which also covers **genetically modified organisms** and transposes a large part of the EC directive on the protection of animals for experimental purposes, was adopted in November 1999.

In the field of **nuclear safety**, Slovenia adopted a law in November 1999 which permanently forbids the construction of new nuclear power plants and depositing nuclear waste imported from abroad on the territory of Slovenia. The law provides for health protection and the preservation of a friendly environment and tackles the problem of nuclear waste deposits in the framework of land planning. The third station for continuous sampling and measuring of radioactivity of aerosols in the air was integrated into the radiation monitoring network in December of last year. Furthermore, the national database for the monitoring of radiation doses received by radiation workers was set up and is now in operation at the Nuclear Safety Administration. (*for further details see Chapter 14 - energy*).

Slovenia increased environmental expenditure from 1.5 to 2-2.5% of GDP. Several investment programmes linked to the enforcement of the *acquis*, a short-term priority of the 1999 Accession Partnership, were prepared or are under preparation. As foreseen in the National Environment Action Programme, this share is to increase to more than 3% of GDP in the coming years.

Overall assessment

Slovenia has made significant progress with the adoption of legislation in the environmental *acquis*. However, more work remains to be done as regards implementation and enforcement of the *acquis*. Further efforts for the strengthening of administrative capacity are still needed. Also the overall responsibilities for implementation and enforcement are very complex and split between different ministries and agencies and between different groups within these organisations.

Alignment with the *acquis* is envisaged to be achieved through eleven framework laws. Six of them - on chemicals, nature preservation, transport of dangerous goods, animal protection, ratification of the Rotterdam Convention and ratification of the Convention on international trade in endangered species - are already in place. Some minor amendments are needed to the existing Environmental Protection Act and to the Protection Against Natural and Other Disasters Act. The remaining acts are being drawn up in accordance with the National Environment Action Programme. The Law on

Water, a short-term priority of the Accession Partnership 1999, has not been adopted yet, in order to take into account the new EC framework directive.

The key institutions for implementing the environment *acquis* are already in place. The Ministry of Environment and Spatial Planning, the Administration for the Protection of Nature, the Hydrometeorological Institute, the Nuclear Safety Administrations, the Inspectorate for the Environment and Spatial Planning and the Health Inspectorate already implement and monitor the implementation of most of the national environmental legislation. As regards the Nature Protection Institute, the regional institutes for the protection of natural and cultural heritage will have to be reorganised before the Institute is fully functional. The newly established Chemical Institute has already started to operate. The preparations to merge the Administration for the Protection of Nature and the Hydrometeorological Institute into a new Environmental Protection Agency have already started.

The administrative capacity requires reinforcement, which has already started. Further strengthening is particularly needed in the areas of waste, water and radiation protection as well as at local level where many of the responsibilities for implementation lie. Most of the new posts (in particular environment inspectors) which the Government approved last year, have already been filled.

Chapter 23: Consumers and health protection

Since last year's Regular Report, Slovenia has made some progress in this area, in particular in safety and non-safety related measures.

In the field of **safety related measures**, Slovenia adopted the *Rules on products with misleading appearance* in January 2000 transposing the relevant directive. The healthcare databases act was adopted in June. It provides the legal basis for Slovenia's future participation in the EHLASS¹⁵ programme or its successor.

In the field of **non-safety related measures**, some discrepancies between the law on consumer protection and the law on promoting tourism were solved by amendments to the law on consumer protection. An Act on Consumer Loan was adopted in July aiming at transposing the *acquis* on consumers' credit. In August 1999, the Government adopted Rules on Price Indications for Goods and Services, thus transposing the relevant directive.

No major developments have occurred since the last Regular Report as regards the **market surveillance mechanism**.

The Parliament approved a *National programme on consumer protection* in July 2000. This programme represents the basis for the implementation of the Government policy on consumer protection and provides for a balanced relationship between the interests of companies and consumers.

¹⁵ European Home and Leisure Accidents Surveillance System

Overall Assessment

Slovenia has made significant progress in this area.

Substantial progress has been achieved to date in the field of **safety**, considering notably the transposition of most of the relevant *acquis* on the basis of the framework provided by the 1999 act on general product safety.

Progress in the field of **non-safety** measures appears generally satisfactory to date in the areas of pricing, travel and consumer credit. However, several amendments to the Consumers Protection Act are still needed before full alignment can be reached.

Continued improvements are needed with respect to the **administrative and judicial framework** for *acquis* enforcement and market surveillance. The institutions for implementation and enforcement are the Trade Inspectorate, the Health Inspectorate, and the Office for Consumer Protection, as well as the competent courts. These should be reinforced by 2002, as foreseen in the government programme of November 1998, notably in terms of staffing and training.

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

Significant progress has been made since the last Regular Report in the Justice and Home Affairs sector on policy development, harmonisation of legislation and strengthening of the administration. Progress has been made especially in the adoption of legislation for control of illicit drugs. However, full implementation of the *acquis* will require a further sustained effort.

No particular developments have taken place in the area of **data protection** since the last Regular Report.

As concerns **visa policy**, the harmonisation of the Slovenian visa list was completed in 1999. The introduction of visa requirements for Bulgaria and Romania in line with the present *acquis* led to political problems. Therefore, arrangements were made for visa-free travel for certain categories of people pending the adoption of a new EC Regulation on visa lists presently under discussion. A regulation concerning issuing of visas for foreign nationals intending to work in Slovenia was adopted in February but repealed in March 2000 following criticism about over-restrictive provisions. The electronic system for issuing visas is being installed and is working in eight diplomatic and consular representative offices. Instructions on issuing visas by diplomatic missions and consular posts have been prepared and are being applied, with the exception of those provisions which will be applicable only after accession. New stickers for visas and residence permits harmonised with the *acquis* and international standards came into use in June 2000. A Law on passports for Slovenian citizens was adopted in July. It regulates the passport issuing procedures, monitoring and sanctions against violations. New passports are due to be issued at the beginning of 2001; they will contain more elements for protection against fraud.

No major developments have taken place since the last Regular Report concerning **border control** and this area remains a priority to be tackled. There has been no progress in resolving the question of the sea and land border with Croatia in Piran Bay and in South Eastern Slovenia.

As far as **migration** is concerned, the Law on Foreigners covers the entry and residence of foreign nationals in Slovenia. Implementation of the law was identified as a short-term priority in the Accession Partnership, and it has been partly fulfilled. Part of the implementing legislation has been adopted – for instance concerning issuing of visas and residence permits. A Law on Prevention of Illegal Employment was adopted in April 2000. A new Law on Foreign Worker Employment and Labour was adopted in July setting out the criteria to be met by foreign nationals to obtain employment or to work in Slovenia. The aim of the law is to align the Slovenian legislation with employment policy principles in the EU member states.

The basic legislation on immigration and **asylum** was adopted in 1999. Implementation of the asylum legislation was identified as a short-term priority in the Accession Partnership, and it has been partly fulfilled. A decree on refugee counsellors was adopted in November 1999. A National Action Plan on Asylum was adopted in April this year. It identifies several areas in which improvements should be made including the separation of Asylum Homes from the deportation centre for illegal immigrants and the adoption of further implementation regulations for the Asylum law. These concern the process for applying for asylum, and the rights of asylum seekers and refugees. Some of these concerns have been addressed in a decree adopted in July concerning treatment of asylum seekers and the documentation needed for an application for asylum. Following a recommendation of the Plan, an Operative Unit has been established at the Ministry of the Interior for processing asylum applications. Overcrowding of the centres is a further problem that should be resolved. This has become more acute as the number of illegal immigrants increased dramatically during the summer of 2000. The Plan also suggests the establishment of a centre that would assist in asylum proceedings and train personnel in implementation of the legislation.

The Ministry of Interior and the Police have been reorganised according to Rules which entered into force in April. This reorganisation has enhanced the administrative capacity of these institutions. Recruitment of 91 new staff into the Police, the establishment of a Criminal Investigation Police Directorate (with a section for organised crime) and of units for computer crime, criminal analysis and investigation support are foreseen. The Slovenian **police** have enhanced **cooperation** with police in the Member States in the areas of training, equipment and cooperation in state border control. A police cooperation agreement with Italy was ratified in November last year.

In order to improve the monitoring of **fraud and corruption**, the police has been reorganised, and specialised units to fight fraud and corruption at national and regional level have been established together with a unit for crime in the public and business sector and financial crime in the General Police Directorate. Slovenia ratified the Council of Europe Criminal Law Convention on Corruption in February. (*see also part B.1.1. on Political criteria*)

Significant progress has been made in adoption of legislation related to illegal **drugs**. The Law on the Prevention of the Use of Illegal Drugs and the Treatment of Drug Addicts was adopted in November 1999. The law establishes measures for prevention, treatment, rehabilitation and social programmes in this field. Prevention and monitoring activities are delegated to the Office for Drugs. The Law on the Production and Traffic of Illegal Drugs adopted in December 1999 sets the framework for preventing cultivation of illicit drugs or plants, for their manufacture and for preventing trafficking

and possession of illegal drugs. The Law on Precursors of Illegal Drugs was adopted in February 2000 taking into account the UN convention and the relevant *acquis*.

Concerning **judicial cooperation**, in September 1999 Slovenia ratified the European Convention on Mutual Assistance in Criminal Matters and the Additional Protocol to it. Slovenia ratified the European Convention on International Validity of Penal Judgements in July 2000 as well as the Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters and the Convention on Taking of Evidence Abroad in Civil or Commercial Matters. The European Convention on the Suppression of Terrorism was ratified in September 2000.

Overall assessment

The overall situation and level of alignment in the Justice and Home Affairs area is in general good, with the exception of border control, on which further efforts are still needed.

The legislative framework for data protection is largely in place. A Classified Information Act has been submitted to the parliamentary procedure. Slovenia ratified the Council of Europe Convention on the protection of Individuals with regard to Automatic Processing of Personal Data in 1994. An independent body for data protection is still missing but its establishment is foreseen in amendments to the Law on Personal Data Protection submitted to the parliamentary procedure in August.

Slovenian **visa policy** is close to alignment – however, Slovenia still has to align its legislation as far as airport transit visas are concerned.

The government has recognised the need for improving **border control**, especially at the green border with Croatia, and is implementing measures to this end. The government set up a coordinating group in July to lead the preparations for the establishment of customs, phytosanitary and veterinary inspections and security at the future EU border between Slovenia and Croatia. The legislative framework in the area of border control is still incomplete as the law on border control is still outstanding. The government plans to adopt the law by 2002. Enhanced border control is especially important, as Slovenia has become a transit country for illegal immigrants, mainly over the borders with Croatia and Hungary. Substantial assistance is being provided from Phare in this area and a Phare Twinning project has been ongoing on state border control since the end of last year. Slovenia has a simplified border crossing regime with Austria and Italy and agreements with all neighbouring countries (Austria, Croatia, Italy, Hungary) concerning the right to enter the territory of Slovenia with identity cards. An agreement on border control assistance with Germany was signed in 1999. An agreement with Croatia on border control is in the process of ratification. An agreement with Austria on border control cooperation is in ratification procedure and a similar agreement with Hungary is still lacking. While international assistance and cooperation will contribute to responding to the training needs in the sector, particular attention should be paid to adequate staffing and equipment. Also, adequate funding needs to be provided for redeployment of staff from borders that will become EU – internal borders to the EU- external borders.

The legislative framework concerning **migration** remains to be completed. Rules for issuing visas for foreign nationals intending to work in Slovenia also still need to be

adopted. According to police data, illegal immigration into Slovenia increased by 3% in 1999 compared with 1998. About 40,000 people – mainly from Romania, FYROM, Yugoslavia, Ukraine, Turkey and Russia were refused entry. The number of illegal immigrants increased during the summer of 2000. From January – August 2000, over 18,000 illegal immigrants were caught – the same number as during the whole of 1999. Slovenia has readmission agreements with Belgium, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, France, Greece, Hungary, Italy, Latvia, Lithuania, Macedonia, Poland, Romania, the Slovak Republic and Switzerland.

The necessary institutions in the area of **asylum** have been created and administrative capacity in the sector has been strengthened through appointment of new staff, including 28 refugee counsellors. However, some implementing legislation for the Asylum Act is still missing and there is still a need for further training of staff. The National Action Plan on Asylum has identified the remaining issues to be tackled in the area – including the creation of asylum homes separate from the deportation centre for illegal immigrants. Slovenian asylum policy is rather restrictive and only five persons have so far obtained refugee status in Slovenia. The number of asylum seekers is increasing (800 in 1999 and 1300 in the first six months of year 2000).

According to available information, fraud, corruption and organised crime are not major problems in Slovenia. The reorganisation of the Slovenian **Police** will enable it to fight **fraud, corruption and organised crime** more effectively. The administrative structures for tackling these problems have been strengthened through the creation of specialised units in the police. The legislative framework has been created. Legal provisions needed for Slovenia's eventual accession to the Convention on protection of the EC's financial interests are included in the Penal Code. Slovenia had ratified the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime already in 1998 and has initiated proceedings to sign the Council of Europe Civil Law Convention on Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The adoption of these conventions was also identified as a priority in the Accession Partnership. Strengthening of capacities to deal with money laundering was identified as a further priority in the Accession Partnership. The legislative basis for prevention of **money laundering** is in place and the National Office for Money Laundering Prevention continues to act as the Slovenian Financial Intelligence Unit.

Substantial progress has been made in the past year in creating the legal framework in the area of illicit **drugs**. Amendments to the law strengthening the police mandate and enabling faster trials are in parliamentary procedure. Further strengthening of the institutions in this area would enable the authorities to tackle the drug problems more effectively. The Ministry of Health is planning to set up by the end of this year an independent information unit for illicit drugs. This unit will become the focal point for cooperation within the Reitox network. Efficient control of drug transit presupposes strengthened border control especially at the borders with Croatia and Hungary. Government statistics on drug related crime indicate a considerable increase in the 1990's. Slovenia is also increasingly becoming a drug consumption country in addition to being a transit country on the Balkan route.

Concerning **customs cooperation**, Slovenia's cooperation with OLAF has been effective.

Concerning international **judicial cooperation**, Slovenia has requested to sign the Lugano Convention on the Jurisdiction and Enforcement of Judgements Abroad in Civil and Commercial Matters. A law allowing Slovenia to improve its cooperation with the UN International Criminal Tribunal for the former Yugoslavia has been submitted to parliamentary procedure. Slovenia has extradition agreements with Austria, Croatia, France, FYROM, Germany, Italy and Turkey.

Chapter 25: Customs union

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

No developments have taken place since the last Regular Report in the field of the EC **Customs Code and its implementation provisions.**

Regarding the customs *acquis* outside the Code, the Law on Customs Tariffs was adopted in July 2000. It will enter into force in January 2001. It aims to enable greater flexibility in the alignment of Slovenia's tariffs with those of the EC. Furthermore, the regulation on the method of implementation of duties of authorised persons of the Customs Service was adopted in July 2000.

The administrative and operative capacity to implement the *acquis* has been strengthened through the appointment of new staff and reorganisation of the relevant institutions. In the second half of 1999 new departments were set up within the Customs Office: The Department for administrative co-operation within the Excise Duty Section, the Transit Unit in the Customs System and Customs Procedure Sector and the TARIC Department in the sector for tariff value and origin. At the end of 1999 and in the first half of 2000, the Customs Administration increased the number of its employees by 30. The intelligence service within the Customs Administration has obtained additional human resources and special equipment to fight smuggling and illicit trafficking as well as new computer equipment.

The Custom Administration's IT Support Service followed the legislative and organisational changes. Unified software support for the application of border customs procedures was introduced and the Customs Service achieved an increase of computer control over the major part of significant transit routes crossing the territory of Slovenia.

Overall assessment

Slovenia has already reached a good level of harmonisation with the EC *acquis*. However, refinement is still necessary in a number of areas such as customs warehousing, cultural goods, free zones, duty reliefs and the system of tariff quotas, ceilings and suspensions.

The amendments of the Customs Service Act and the relevant implementation rules adopted in the first half of 1999 represented substantial progress in Slovenia's alignment with the customs *acquis*.

The Law on Customs Tariffs provides for further methodological alignment with EC standards, however the law is not fully harmonised from the point of view of the combined nomenclature system.

Slovenia participates in the Pan-European System of Origin, and has agreed to the amendments to the System which will come into force in January 2001.

The administrative and operational capacity to implement the *acquis* has reached a partially satisfactory standard, as concerns training of staff and material equipment. The adoption of the regulation concerning duties of customs service personnel is an important step towards regularisation and strengthening of the administration. However, efforts must still be made to fully arrive at an integrated computerised system comparable to the EC administration.

Chapter 26: External relations

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

As regards the **Common Commercial Policy**, since 1999 there has been some progress in alignment of Slovenia's agriculture and fisheries tariffs with those of the EC. Slovenia's average applied tariffs are 10.6%. (EC: 5.3 %) on all products, 13.6%. (EC: 9.4 %) on agricultural products, 7.4%. (EC: 12.4%) on fishery products and 10.0% (EC: 4.2 %) on industrial products.

Slovenia adopted the Act Regulating the Exports of Dual-Use Goods, the Decree on the List of Dual-Use Goods and the Order on the Format and Content of Request Forms for the issuing of authorisations for the export of dual-use goods in Spring 2000. These measures aim to establish a unified monitoring system over the export of dual-use goods.

In June 2000 Slovenia became a participant in the WTO Agreement on Trade in Information Technology Products.

Between September 1999 and May 2000 Slovenia ratified **bilateral agreements** on the protection of investments with Albania, the Belgo-Luxembourg Economic Union, Bulgaria, Greece, Kuwait, Poland, Portugal, the Russian Federation, Spain, Thailand and Ukraine, signed similar agreements with Italy, Sweden and initialled an agreement with Austria. In addition Slovenia ratified bilateral agreements on economic co-operation with Bosnia and Herzegovina, Brazil, Egypt, Indonesia, Korea, the Philippines and Thailand.

In December 1999 the Free Trade Agreement with FYROM came into force and in August 2000 the Free Trade Agreement with Israel came into force.

Regarding **humanitarian aid**, Slovenia is involved in projects under the Stability Pact for Southeast Europe, for instance by providing health care in the context of SFOR and through the International Trust Fund of Demining and Mine Victims Assistance in Bosnia Herzegovina.

As a member of the WTO Slovenia has established an interministerial working group for the efficient co-ordination of WTO matters and for dealing with the preparations for further negotiations on liberalisation within the WTO.

Overall assessment

Slovenia has made good overall progress and has continued to liberalise its trade policy. Its trade trends and policy are increasingly integrated with those of the EU.

The EU and Slovenia have established a framework for co-operation regarding WTO issues both at ministerial and at departmental level. Slovenia has been supportive of EU policies and positions within the WTO framework. As regards the new round, Slovenia 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.

Slovenia has progressed in aligning the legislation related to the Government Procurement Agreement (GPA) with the *acquis* and is an observer of the WTO Government Procurement Committee. It will need to accede to the GPA before its accession to the EU. Slovenia will also need to sign the WTO Agreement on Civil Aircraft before accession.

Slovenia agreed in 1999 to phase in tariff reductions to reach the level of Common External Tariff (CET) by 2003. However, it is important that the preferential regime provided in the Europe Agreement is maintained.

Slovenia is a member of CEFTA. It has concluded free trade agreements, for instance with the Baltic States, Turkey, Croatia, FYROM and Israel, and an agreement on Economic Cooperation with Bosnia-Herzegovina. In this respect Slovenia should continue to keep the Union fully informed about negotiations aimed at the conclusion of any new trade agreements with a third country.

As regards the WTO Agreement on Trade in Textiles and Clothing (ATC), Slovenia needs to use the third stage of integration under the ATC to align its integration programmes on those of the EC, while notably avoiding integrating products not yet integrated by the EC.

Further co-ordination is necessary in order to consolidate the adjustment of the Slovenian list of commitments in the General Agreement on Trade in Services (GATS) with the EC commitments and to align it with the EC exemptions.

Regarding development policy and humanitarian aid, Slovenia should closely co-operate with the EU.

Chapter 27: Common foreign and security policy

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

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

Slovenia has shown a keen interest in the development of the European Security and Defence Policy as part of CFSP and has actively participated in the exchanges in this

context with the EU, in EU + 15 format (ie non-EU European NATO members and candidates for accession to the EU).

As regards **alignment with EU statements and declarations**, Slovenia has regularly aligned its positions with those of the Union and, when invited to do so, has associated itself with the Union's **joint actions and common positions**. It has refused to do so only once: In September 2000 concerning the EU declaration on the elections in the FRY. Slovenia did not agree with the wording of the EU Declaration supporting 'reintegration of the FRY into the International Community' as it thought that this wording implied recognition of FRY's claim to be the sole successor state of SFRY.

A Declaration of Foreign Policy of the Republic of Slovenia was adopted in December 1999. It defines full membership in EU, NATO and the WEU, membership in the OECD and an active role in the UN, OSCE and CEFTA as Slovenia's foreign policy priorities in addition to stable and good neighbourly relations with countries in its vicinity. Participation of Slovenia in the stabilisation of the South-Eastern Europe is defined as a further priority. Slovenia was a non-permanent member of the UN Security Council in 1998 and 1999.

Slovenia's relations with its neighbours remain good. It engages actively in trilateral cooperation with Italy and Hungary, which in September 2000 became quadrilateral with the inclusion of Croatia, and participates in the Central European Initiative. Slovenia's relations with Croatia have become more constructive after the political changes in Croatia. Slovenia ratified the bilateral property agreement in December, which creates a basis for resolving outstanding property rights cases. The two countries have also concluded an agreement on border transport and cooperation – however, it remains to be ratified by Slovenia. However, there are still some outstanding issues to be settled between the two countries including the demarcation of the land and sea border at Piran bay and in South Eastern Slovenia. The settlement of ownership of the Krsko nuclear power plant (situated in Slovenia but jointly owned by the two countries) and the debt of the Slovenian Ljubljanska Banka to its former Croatian account holders at the bank's former branch in Zagreb also need to be tackled.

Slovenia continues to participate actively in the Stability Pact for South Eastern Europe by contributing to the three Working Tables. It also offers assistance to the countries of South Eastern Europe – over 30 projects have been approved and Slovenia has allocated about € 4 Million for this purpose. 40 per cent of this assistance is earmarked for Bosnia-Herzegovina. Slovenia also initiated the setting up of the International Trust Fund for Demining and Mine Victims Assistance for Bosnia-Herzegovina. The Fund has expanded its activities to Croatia and Kosovo.

Since the last Regular Report, Slovenia has adopted defence and military cooperation agreements with Israel, Portugal, Poland, Hungary and Estonia and agreements on cooperation between Defence Ministries with Greece and Bulgaria.

Overall assessment

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

Slovenia's relations with its neighbours remain good. It still has a number of remaining issues to be settled with Croatia but the overall relations between the two countries can be considered good. Slovenia's role and the special contribution it can make in South Eastern Europe have been reconfirmed in the course of the last year.

Slovenia has a well staffed (a total of 436) and functioning Ministry of Foreign Affairs and the administrative capacity to implement the provisions relating to CFSP.

Chapter 28: Financial control

During the period covered by this Regular Report, good progress has been made in the field of financial control.

In the area of **internal financial control system**, the Law on Public Finances was adopted in September 1999. It regulates the structure, preparation and implementation of the national budget and budgets of municipalities and contains provisions regarding accounting and budget control. A special unit in charge of internal financial control has been created in the Ministry of Finance. The Rulebook on Joint Criteria for the Organisation and Procedures of Financial Control was enacted in February 2000 on the basis of the Public Finance Act adopted in September 1999. These provisions provide the foundation for the establishment of an internal audit function in line ministries and other government spending centres, and of a centralised organisation for harmonising control and audit methodology.

No particular developments have taken place concerning **external financial control**.

According to a plan to strengthen the Government Office for Budgetary Control within the Ministry of Finance, 4 new staff was recruited. The Court of Auditors increased its staff from 88 to 91 employees.

Slovenia has strengthened administrative capacities regarding **control of structural action expenditure** and **protection of financial interests** following the adoption of the Law on public finances in 1999. The Government Office for Budgetary Control has been reorganised and the staff increased. According to the new organisational structure, this office now oversees the legality and effectiveness of integral budget expenditures and EC-funds.

Overall assessment

Substantial progress has been made in the field of financial control in the past few years. Completion of the legislative framework for internal and external financial control and the setting up of internal audit/control units in spending centres has been identified as a priority in the Accession Partnership. The Public Finance Act and the Rulebook in particular are adequate starting points for further implementation of internal financial control. The appointment of internal auditors is an important step towards effective internal control. However, a properly defined functional independence of the internal audit function and a precise mechanism for the follow-up of internal audit reports still need to be set up. In addition, an adequate description of the relationships between the different control bodies is necessary for efficient implementation. In the framework of an adequate public internal financial control system, it is now important to focus on the development of financial management and control manuals in line ministries and other

government spending centres. Audit manuals should be set up in the internal audit services, based on the methodological guidelines of the Ministry of Finance.

External financial control can be considered adequate in Slovenia. The Court of Audit operates functionally and financially independently of the government. Its activities cover the full range of regulatory and performance audits set out in international standards. However, further improvements remain to be made, especially in the field of systems and performance audit. There is scope to improve on the follow-up procedures of both the Parliament and the Government relating to the Court's findings and recommendations. These do not seem to be satisfactory at present. Furthermore, the Court's status needs to be formally changed to that of a National Audit Office so that it no longer issues decrees.

The administrative capacity of the Court and the Budgetary Inspectorate need to be strengthened.

The institutional framework concerning structural action expenditure and protection of EC financial interests is in place. However, to ensure effective implementation of the legislation harmonised with the *acquis*, the strengthening of the Government Office for Budgetary Control should continue.

Chapter 29: Financial and budgetary provisions

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

Slovenia has made some progress in the reporting period as regards the **national budget and EC co-financed measures**. A new legal basis for the management of budgetary funds in Slovenia, the Law on Public Finance and the Accountancy Act, entered into force in January 2000. The principles and rules contained in these laws generally meet current **EC** standards and their application will contribute to ensuring sound management of Community assistance in overall budgetary terms. The Law on Public Finance introduced multi-annual programming of public expenditure, which has been put into practice as of this year for the preparation and monitoring of budgets for the next four-year period.

In the field of **own resources** the Parliament adopted in July the Law on Customs Tariffs, which aims to facilitate the alignment of Slovenian tariffs with those of the EC. No particular developments have taken place as regards the **administrative infrastructure**.

Overall assessment

Slovenia has made some progress as regards the *acquis* on financial and budgetary provisions.

The legal framework for the management of budgetary funds, comparable to that found in EU member States, is already in place. In parallel, the analytic capacity for the appraisal, follow-up and evaluation of projects and programmes should be developed in the Ministry of Finance and spending departments. With regard to the Community's own resources, further efforts to align with the *acquis* still need to be made. Calculation of GNP still needs to be fully harmonised with the ESA 95 statistical norms. VAT was

only introduced on 1 July 1999. The main features are in line with the *acquis*, but no experience or data for the control, assessment or inspection of VAT collection is available at this early stage. Nevertheless, the introduction of VAT was smooth and properly managed, with no major price increases or liquidity problems and, according to the Ministry of Finance's receipts, in line with expectations. Concerning the traditional own resources, there are currently no special provisions for agricultural levies in Slovenia. Further amendments to the sugar regime are necessary for full alignment with the *acquis*. The legal basis for the collection of customs duties is in place, but still needs to be further harmonised with the *acquis*.

As regards administrative capacity, the necessary institutions for implementing the *acquis* in this field are already in place. However, central co-ordination for the proper collection, monitoring and payment of funds to and from the EC budget still need to be strengthened. Furthermore, administrative strengthening will also be necessary in the context of the relevant policy areas described elsewhere in this report, such as agriculture, 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.

Slovenia has made further progress in translating the *acquis* into Slovene. Concerning the primary legislation, the Single European Act, the Maastricht Treaty and the Euratom Treaty have been translated. According to the government, almost one quarter of the EC secondary legislation – i.e. 23.600 pages of the Official Journal have been translated. However, only 26 pages have been legally revised.

The Translation Unit of the Government Office for European Affairs with 38 staff is responsible for this task. The government is also providing funding for translations commissioned from freelance translators. Slovenia aims at completing the translation of the *acquis* by the end of 2002.

Urgent additional efforts are required in this area.

3.3. General evaluation

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

Slovenia has made good progress since the last Regular Report in adopting legislation in the key areas of the internal market *acquis*. Substantial progress has been made in establishing the legislative framework for *free movement of goods*, including in public procurement, and Slovenia should now concentrate on the timely and complete enacting of the remaining legislation and the strengthening of the institutional set-up. Significant progress has also been made in the area of *freedom to provide services*. With the adoption of the insurance legislation, a large part of the legislative work in this area has now been completed. The legislative framework for *free movement of capital* has now been put in place but Slovenia should continue eliminating the remaining administrative restrictions to capital movement. Little progress has been made since the last Regular Report in the field of *free movement of persons*, and further legislative efforts are required in this area. The legislative framework is also quite advanced in the area of *company law*, but some improvements are still needed, for instance concerning intellectual and industrial property rights.

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

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

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

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

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

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

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

C. Conclusion

Slovenia continues to fulfil the Copenhagen political criteria.

Progress has been made in judicial reform, which is a medium term priority in the Accession Partnership. However, it is still too early to assess the effectiveness of the new measures aimed at reducing the backlog of pending court cases.

Public administration reform is another area requiring attention. Little progress has been achieved in this respect since the last Regular Report as important pieces of legislation which are to provide the basis for reform have not yet been adopted. This area is a short-term priority in the Accession Partnership.

The denationalisation process remains slow and further efforts are needed to speed it up.

Slovenia can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it completes the remaining reforms that would increase competition in the economy.

Continued macroeconomic stability, with fiscal and external balances under control, has provided the basis for steady growth. Some steps to assure the medium-term sustainability of pension reform have been taken. The legal and institutional framework for a market economy is largely in place.

However, implementation of this framework can be improved. Furthermore, the state still has considerable influence in certain areas of the economy. In particular, the continued dominance of the financial sector by state-owned banks holds back development and competition. The slow progress on privatisation and rigid business conditions are keeping foreign direct investment inflows at a low level.

Progress in improving the economic climate, combined with a full and timely completion of privatisation, structural reforms and market liberalisation, would attract more foreign investors and provide better conditions for sustained future growth. In the short term, there is a need to reinvigorate the reform of the financial sector, where competition needs to be encouraged, and to accelerate enterprise restructuring. Labour market flexibility should also be increased. These measures would foster enterprise development and improve market efficiency

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

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

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

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

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

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

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

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 assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in italics.¹⁶

Short-term priorities

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

Internal Market: Slovenia has made some progress in alignment in the area of *public procurement* through the adoption in September 1999 of a new act on the review of public procurement procedures, and in April 2000 of a new act on public procurement. Slovenia has not yet adopted the new law on *industrial property*, nor introduced a *supplementary protection certificate (SPC)*. Some progress has been made in

¹⁶ For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership, please refer to Council Decision 1999/859/EC, OJ L 335 of 28/12/99.

strengthening the legislative framework for *border control*. However, an act on border enforcement, which covers both the fight against piracy and against *counterfeiting* still remains to be adopted, and border control in general should be strengthened.

In *company law*, Slovenia has not fully met the priority as the *discriminatory requirements on the use of language* have not yet been abolished. However, the implementation since 01.01.2000 of the Accountancy Act has been a step forward.

Slovenia still needs to establish an *independent supervisory authority for data protection*, in line with the requirements of the directive.

Concerning *free movement of goods*, Slovenia has continued the implementation of the framework legislation for *New Approach directives* related to legal metrology, pre-packaging, machinery, low voltage and EMC, medical devices, construction products, as well as for the “*acquis*” on textiles and footwear, foodstuffs, chemicals, pharmaceuticals and motor vehicles. All regulatory steps for the restructuring of *SMIS* have been taken. A decision was taken in April to establish the *Slovenian Accreditation Body* and the *Slovenian Standards Institute*, which respectively took over the accreditation functions and the standardisation functions formerly carried out by *SMIS*. The other functions still need to be effectively transferred.

Participation of *foreign investors* is still severely restricted in the field of transport, telecommunications and the media. Progress has been achieved in the *financial sector*.

In the area of *competition*, the priority concerning *anti-trust legislation* has been met with the implementation of the new act and the enactment of the related secondary legislation. The *competition office* was slightly reinforced in 2000. Regarding *State aid*, progress has been made through the adoption of a framework Act on State Aid Control in December 1999 and the issuing of secondary legislation. The State aid control section that provides support to the *State aid monitoring authority* received additional staff. Annual *State aid reports* have been submitted but the inventory is not yet exhaustive and a regional aid map is still lacking.

The *Telecommunication Act* is still in the parliamentary procedure and the independent regulatory authority has not been established yet. There has been some progress in alignment in the area of *audio-visual legislation*, however, the Mass Media Law is still in parliamentary procedure.

Concerning *taxation*, the *Duty Free shops* at land borders have not been closed so far. Slovenia has committed itself to following the *Code of Conduct for business taxation* in new tax measures on the basis of a case-by-case analysis and in cooperation with the EU. **Therefore, the priorities in this area have been partially met.**

Agriculture: *Alignment of the veterinary and phytosanitary legislation* is still under way. Substantial progress has been made in the veterinary field, in particular with the re-organisation of the veterinary service through the adoption of the Act amending the Veterinary Practice Act. However, no progress has been made on the establishment and upgrading of the *border inspection posts*. **Therefore, limited progress has been made in meeting the priorities in this area.**

Transport: Slovenia ratified the Paris Memorandum of Understanding on Port State Control, enacted rules on the examination of pilots, and enacted a decree providing for a

reduction of port fees for segregated ballast oil tankers. **Therefore, this priority has been met.**

Environment: The adoption of the *Law on Water* has been delayed, in order to take into account the new EC Framework Directive. The main *implementation strategies for environmental approximation* are outlined in the National Environmental Action Programme (NEAP) adopted in 1999. The NEAP contains a ten-year strategy based on four priorities: *water, waste, bio-diversity and air*. It is being implemented through a number of sectoral programmes linked to EC directives. Some of the programmes are already in operation (e.g. air quality, ozone-depleting substances, urban waste water treatment), others are due in 2000, including several programmes linked to waste management and water quality directives. The overall framework for financing *investments* in the environmental sector is laid down by the National Environmental Action Programme of 1999. The sectoral programmes such as the operational programme for waste water treatment include detailed financing plans. The ISPA strategy for the environment sector defines the strategy for the identification and selection of projects in the wastewater treatment, drinking water supply and waste management sectors to be proposed for ISPA financing. Environmental expenditure has been increased to over 2% of GDP. In January, Slovenia adopted a Decree on categories of activities for which *environmental impact assessments* are mandatory. This Decree is enforced through the Ministry of Environment and Spatial Planning as well as municipalities. Slovenian legislation on environmental impact assessment is now, except for one minor requirement, in line with the *acquis*. **Therefore, the priorities in this area have been largely met.**

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

Justice and Home Affairs: Implementation of the *laws on Foreigners and Asylum* has started but some implementing legislation is still missing. Slovenia has ratified the Council of Europe Criminal Law Convention on *Corruption* and the European Convention on *Laundering, Search, Seizure and Confiscation of the Proceeds from Crime*. The OECD Convention on Combating *Bribery* of Foreign Public Officials in International Business Transactions has not been ratified yet. **The priorities in this area have been partially met.**

Reinforcement of administrative and judicial capacity, including management and control of EC funds: Slovenia has not met the target of accelerating public administration reform as there has been very little progress in this area since the previous Regular Report. The Civil Service Law still remains to be adopted.

Concerning SAPARD, the priority concerning the *Rural Development Plan* has been met and the Plan is in the process of being adopted by the Commission. Slovenia has adopted a *Preliminary National Development Plan* in September 1999 as an

intermediate step towards the development of a comprehensive and detailed National Development Plan. Slovenia has also presented ISPA strategies concerning transport and environment to the Commission. Some steps have been taken to establish the framework to manage and programme ISPA and SAPARD but work still remains to be completed in this area. The *SAPARD paying Agency* has been accredited by the relevant Slovene authorities in October 2000. The accreditation will need to be reviewed and approved by the Commission.

The legislative framework for internal and external financial control has been established. The legislative basis for establishment of internal audit/control units has been set up but the implementation remains to be completed.

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

Therefore, this priority can be considered to have been met partially.

Medium term priorities

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

Political criteria: Slovenia has introduced measures to *speed up property restitution*, especially through speeding up of the court procedures. However, their effects still remain to be seen.

Economic criteria: Some progress has been made in *restructuring and commercialisation of state owned utilities*, however, the process remains to be completed. Slovenia has continued alignment in the field of investment services and securities markets. Limited progress has been made in *liberalisation of capital flows* in the field of portfolio investment. Slovenia has introduced measures to improve the *annual fiscal surveillance* procedure. The Court of Auditors operates functionally and financially independently of the government. However, further improvements remain to be made in the field of systems, performance audit and on the follow up procedures for the Court's findings and recommendations.

Internal Market: The elimination of the *10% price preference* for domestic bidders in *public procurement* was ensured by the new act on public procurement. In competition, the authorities received some reinforcement and the procedures were improved by new secondary legislation, which improve coordination in the administration. This priority was thus partially met, except for transparency of existing aid which still has to be improved. Slovenia continued alignment in the area of *consumer protection* with the transposition of the Directive on products with misleading appearance, and with progress in the areas of travel, price indications and consumer credit.

Agriculture: Substantial progress has been made with the adoption of the Agriculture Act in June, which provides the legal basis for further *alignment* with the *Common Agricultural Policy*. Preparations for setting up the management mechanisms and administrative structures for the CAP have started with the establishment of the Agency for Agricultural Markets and Rural Development and the adoption of the Rural Development Plan 2000 – 2006. The Plan will provide the basis for the use of SAPARD

pre-accession aid in the field of agriculture and rural development and is in the process of being adopted by the Commission. The Agency for Agricultural Markets and Rural Development was established within the Ministry of Agriculture, Forestry and Food already in 1999. The Agency is responsible for implementing the SAPARD pre-accession funds and will carry out the tasks related to the Common Agricultural Policy after accession.

Some progress has been made in the field of animal identification. An independent section for Animal Identification and a Registration Service for bovine animals was established within the Ministry of Agriculture, Forestry and Food, and the Order on the Identification and Registration of Bovine Animals as well as sheep and goats has been issued. Furthermore, the legal framework for Hazard Analysis Critical Control Point (HACCP) was adopted in December with the rules on veterinary-sanitary inspections.

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

Energy: Slovenia continued to ensure high levels of *nuclear safety*. The implementation of the safety upgrading programmes of the *Krško nuclear power plant* has proceeded steadily. New steam generators and a new full-scope simulator have been installed. The first phase of the *seismic study* has been completed. Slovenia has made some progress in *improving energy efficiency* through information actions and financial incentives. Some progress concerning *oil stock requirements* was made through secondary legislation implementing the Amendments to the Act on Commodity Reserves. Preparations for the internal energy market have continued with the issuing of secondary legislation based on the *energy act*, and with the decisions establishing the Energy Agency. Changes in the model for setting gasoline *prices* establish a closer link with world prices, but the electricity and gas tariffs still do not fully reflect costs.

Transport: The priority related to *road transport* has been partly met, with the issuing of secondary legislation on transport of dangerous substances, with amendments to the rules on weights and dimensions, as well as with the adoption of amendments to the road transport safety act. The latter amendments also provide for adjustment of the vehicle tax system. Secondary legislation was also enacted as regards permits for international freight, and as regards tolls.

Employment and Social Affairs: progress has been made in the field of *occupational health and safety* with the adoption of the Health and Safety at Work Act and eight related specific Regulations.

Economic and social cohesion: The GDP per capita gap between Slovenia and the EU has been reduced as a result of GDP growth in Slovenia being higher than the EU average. Slovenia has been gradually establishing the required instruments for *economic and social cohesion*, for example through the adoption of the Preliminary National Development Plan, the establishment of the national Regional Development Agency and its regional branches, and adoption of various decrees to implement the law on balanced regional development. Some progress has been made in developing the budgetary system with the entry into force of the Law on Public Finance and the Accountancy Act which will contribute to sound management of Community assistance.

Environment: The timetable for implementation of the *acquis* included in the latest amendment to the NPAA indicates 2001-2002 for implementation of these Accession Partnership priorities. A start has been made with the strengthening of administrative capacity: recruitment of additional staff including 23 for the environmental inspectorate; work has started on the establishment of the Environmental Agency. Integration of other policies: the NEAP includes a medium to long term strategy backed by actions for the integration of environmental considerations into other sectors.

JHA: Progress has been achieved in improving the administrative capacity of law enforcement bodies through recruitment of new staff, through training and improved equipment. Slovenia has also continued efforts to fight *organised crime, trafficking in women and children, drug trafficking and corruption*. Further steps have been taken in the alignment of *visa legislation and practice*.

Reinforcement of administrative and judicial capacity, including management of EC funds: Measures have been introduced to improve the operation of the *judicial system*, especially to reduce the backlog of court cases. However, it is still too early to assess their impact on the backlog. *Training in Community law* is being provided in the judicial training centre. Strengthening of *public financial control* functions has started – but the process is still underway. The *statistical* capacities are being gradually strengthened.

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

The Slovenian government drew up in 1999 a medium term National Programme for Adoption of the *Acquis* covering years 1999 to 2002. The programme was submitted to the Slovenian parliament for discussion and it adopted conclusions giving instructions to the government on its implementation. This programme was presented to the Commission in May 1999, and it was assessed in the previous Regular Report.

Amendments to the programme were adopted by the government in April 2000 to reflect *inter alia* the comments made by the Commission on the programme, the commitments Slovenia has undertaken in the Negotiating Positions, the 1999 Regular Report and the new Accession Partnership priorities. The document was submitted to the Slovenian Parliament for information. The amendments were presented to the Commission in May.

The amendments to the NPAA follow the same structure as the original document. The sections on the political and economic criteria have not been changed, except for the sub-chapters on anti-corruption measures and civil and political rights. The Commission suggested last year that these issues be covered more thoroughly. The chapter on Research and Technological Development has been rewritten to reflect developments in this area. The document only includes those *acquis* chapters in which developments have taken place. Therefore, the areas of EMU, Industry, Fisheries, SMEs, Budgetary Reform and Financial Reform have been excluded. However, there have been developments since the NPAA in some of these areas, such as SMEs and industry. The Economic and Monetary Union chapter has not been included although the Commission recommended last year (Regular Report 1999) providing more detail on this area.

The *acquis* chapters describe the changes in the situation in each area, the progress made in legislative alignment and in the institutional framework as well as changes in the forecasts for budgetary and foreign aid funds. A special chapter defines the changes in

the administrative capacity to implement the *acquis* and a section on training on EU related issues has been added. The final chapter concerning the financial resources needed to implement the measures outlined has been expanded and entirely rewritten to include new instruments such as ISPA and SAPARD. References to projects under Phare and the other instruments are to be found mainly in this section. The introduction of a part on training and the expansion of the chapter on financial resources are welcome changes.

An update of the text concerning anti-corruption measures is welcome, and it includes an assessment of the measures that would improve the capacity of the authorities to tackle corruption. However, the document provides little information on what new measures are foreseen by the government and in what timeframe. This problem, which also appeared in the NPAA in 1999, exists in some other sections of the document as well, for instance that concerning the alignment of existing state aid schemes with the EC state aid rules. The “free movement of capital” section should be updated to reflect the new timetable adopted by the government for further liberalisation of the capital markets.

In some cases the document contains references to measures as already adopted and having entered into force when the opposite is the case (for instance the Mass Media Act and the Act Regulating the Radio and Television of Slovenia are mentioned in some tables as adopted and implemented).

The priorities set out in the document are in general consistent with the priorities of the Accession Partnership, the positions of Slovenia in the accession negotiations and the commitments its has made. However, the document would have benefited from more references to the decentralised level of government in the relevant parts.

While the document provides information on objectives to be reached, it sometimes remains vague as to what the timetable for the implementation of specific measures is (for instance the adoption of the Mass Media Law) and what the short-term measures are needed to achieve the objectives set. Also, the information provided in some sectors is very scarce, for instance the document gives very little information on the establishment of border control posts for veterinary and phytosanitary inspection and further alignment in the Justice and Home Affairs area.

The budgetary provisions for implementation of the NPAA include public and private, and national and international sources of financing. This information can, on the whole, be considered sufficient.

The document would also benefit from more detailed information concerning the administrative capacity in the various areas (for instance concerning intellectual property, public procurement, taxation and financial services supervision). This applies also to the original NPAA and was highlighted in the 1999 assessment.

The document – together with the NPAA - is intended to have a coordinating role in Slovenia’s preparations for membership. In this respect, it would benefit from an improvement in the quality of the information and in the level of detail provided.

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; TK = Turkey

Statistical data

	1995	1996	1997	1998	1999
Basic data	in 1000				
Population (average)	1.988	1.991	1.987	1.983	1.986
	in km²				
Total area	20.273	20.273	20.273	20.273	20.273
National accounts	1000 Mio Tolar				
Gross domestic product at current prices	2.221	2.555	2.907	3.254	3.637
	1000 Mio ECU/euro				
Gross domestic product at current prices	14,3	14,9	16,1	17,5	18,7
	ECU/euro				
Gross domestic product per capita ¹⁷ at current prices	7.200	7.500	8.100	8.800	9.400
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	4,1	3,5	4,6	3,8	4,9
	in Purchasing Power Standards				
Gross domestic product per capita ¹⁸ at current prices	11.324	12.185	13.246	13.908	14.964
	% of Gross Value Added¹⁹				
Structure of production					
- Agriculture	4,5	4,4	4,2	4,1	3,6
- Industry (excluding construction)	32,6	32,0	31,8	32,0	31,4
- Construction	5,0	5,6	5,6	5,6	6,1
- Services	57,9	58,0	58,4	58,3	58,9
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	78,3	77,5	77,0	75,9	76,0
- household and NPISH	58,1	57,3	56,5	55,5	55,4
- general government	20,2	20,2	20,5	20,4	20,6
- Gross fixed capital formation	21,4	22,6	23,5	24,6	26,9
- Stock variation ²⁰	1,9	0,8	0,7	1,0	1,1
- Exports of goods and services	55,2	55,6	57,1	56,6	52,7
- Imports of goods and services	56,8	56,5	58,3	58,1	56,7
Inflation rate	% change over the previous year				
Consumer price index ²¹	13,5	9,9	8,3	7,9	6,1

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

¹⁸ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁹ Including FISIM.

²⁰ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

²¹ Changes in Methodology: PROXY HICP since 1996 (see methodological notes).

Balance of payments²²	Mio ECU/euro				
-Current account	-18	13	26	-3	-545
-Trade balance	-729	-695	-699	-691	-1.068
<i>Exports of goods</i>	6.384	6.593	7.414	8.113	8.077
<i>Imports of goods</i>	7.114	7.288	8.113	8.804	9.162
-Net services	482	542	534	458	343
-Net income	161	117	114	130	84
-Net current transfers	70	49	76	100	113
<i>-of which: government transfers</i>	-63	-62	-58	-75	-79
- FDI (net) inflows	235	210	414	178	78

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	0,0	0,3	-1,2	-0,8	-0,6

Financial indicators	% of Gross Domestic Product				
Gross foreign debt of the whole economy	10,98	19,08	19,06	20,31	28.46 E
	as % of exports				
Gross foreign debt of the whole economy	19,89	34,33	33,36	35,90	54.05 E
Monetary aggregates	1000 Mio ECU/euro				
- M1	1,2	1,3	1,4	1,8	2,0
- M2	5,7	4,2	5,4	6,7	7,1
Total credit	4,8	5,1	5,5	6,7	7,8
Average short-term interest rates	% per annum				
- Lending rate	24,8	23,7	21,3	17,3	14,2
- Deposit rate	15,3	15,1	13,2	10,5	7,2
ECU/euro exchange rates	(1ECU/euro=..Tolar)				
- Average of period	154,9	171,8	181,0	186,0	194,5
- End of period	165,6	177,3	186,8	188,8	198,9
	1995=100				
- Effective exchange rate index	100,0	89,9	84,8	82,5	78,0
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	1.386	1.834	3.002	3.119	3.154
-Reserve assets (excluding gold)	1.385	1.833	3.002	3.119	3.153

External trade	Mio ECU/euro				
Trade balance	-891	-884	-873	-949	-1.320
Exports	6.353	6.553	7.389	8.065	8.002
Imports	7.244	7.437	8.262	9.014	9.322
	previous year=100				
Terms of trade	103,5	101,9	99,8	102,5	99.6P
	as % of total				
Exports with EC-15	67,0	64,6	63,6	65,5	66.0P

²² 1999 data from National source except for exports and imports of goods and government transfers from IMF source.

Imports with EC-15	68,8	67,5	67,4	69,4	68.6P
Demography	per 1000 of population				
Natural growth rate	0,0	0,0	-0,4	-0,6	-0,5 P
Net migration rate (including corrections)	0,4	-1,7	-0,7	-2,7	5,2 P
	per 1000 live-births				
Infant mortality rate	5,5	4,7	5,2	5,2	5,1 E
Life expectancy :	at birth				
Males:	70,3	70,8	71	71,1	:
Females:	77,8	78,3	78,6	78,7	:

Labour market (ILO methodology)	% of labour force				
Economic activity rate	58,7	57,6	59,5	59,4	57,9
Unemployment rate, total	7,4	7,3	7,4	7,9	7,6
Unemployment rate of persons < 25 years	18,8	18,8	17,6	18,6	18,1
Unemployment rate of persons >= 25 years	5,6	5,6	5,6	6,1	6,0
Average employment by NACE branches ²³	in % of total				
- Agriculture and forestry	10,4	10,1	12,7	11,5	10,2
- Industry (excluding construction)	37,9	36,7	34,2	33,7	32,8
- Construction	5,1	5,4	5,8	5,6	5,3
- Services	46,5	47,8	47,2	49,3	51,3

Infrastructure	in km per 1000 km²				
Railway network	59	59	59	59	59
	km				
Length of motorways	293	310	330	369	399

Industry and agriculture	previous year = 100				
Industrial production volume indices	102,0	101,0	101,0	103,7	99,5
Gross agricultural production volume indices	99,9	100,7	98,8	102,5	97,6

Standard of living	per 1000 inhabitants				
Number of cars	352	365	385	402	418
Telephone subscribers	309	333	357	389	396
Number of Internet connections ²⁴	:	:	:	9,85	:

P = provisional figures E = Estimates

²³ For 1995-1996 data estimation.

²⁴ Source: United Nations.

Methodological Notes

Inflation

Consumer price index: the EU Member States have designed a new consumer price index in order to comply with the obligations of the EC Treaty, as a part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (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 1996 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: 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). European Commission data is used for ECU rates, European Central Bank data 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 consist of the average rate charged on loans granted by reporting banks. Deposit rates refer to average demand and time deposit rates.

Exchange rates: ECU exchange rates are those that were officially notified to the European Commission 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).

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 (relaxed definition) as defined by UN Statistical Office IMTSCD. The statistical value of the goods is based on the customs value, i.e. on the transaction value of goods. The invoice value is recalculated at the Slovenian border by adding or subtracting a part or all of the costs of transport, loading, unloading and insurance, depending on the terms of delivery set down in the contract. The statistical value of exported goods is thus FOB-type valuation (transport costs incurred up to the border are charged to the seller) and the statistical value of imported goods is CIF-type valuation (the purchaser pays the additional costs). Thus defined statistical values of exported and imported goods are recalculated to ECU/euro on the basis of an average exchange rate corresponding to the period. The source of the exchange rate information is the European Central bank.

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

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

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

Demography

Net migration rate: crude rate of net migration (recalculated by EUROSTAT) for year X, is: $\text{population (X+1)} - \text{population (X)} - \text{Deaths (X)} + \text{Births (X)}$. This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). In this

case figures are more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

Labour Force

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

- Labour force: employed and unemployed persons according to the ILO definitions stated below.

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

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

have no work,

are actively seeking a job and

are ready to take up a job within a fortnight.

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

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

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

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

Infrastructure

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

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

(a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;

(b) does not cross at level with any road, railway or tramway track, or footpath;

(c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

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

Industry and agriculture

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

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

Standard of living

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

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

Telephone subscribers: mobile phone subscribers are not included.

Sources

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

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