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REGULAR REPORT

ON

LATVIA'S

PROGRESS TOWARDS ACCESSION

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Table of contents

A. Introduction.....	6
a) Preface	6
b) Relations between the European Union and Latvia.....	8
Recent developments under the Association Agreement (including bilateral trade).....	8
Accession Partnership / National Programme for the Adoption of the Acquis	9
Community aid	9
Twinning	12
Negotiations / screening.....	13
B. Criteria for membership.....	14
1. Political criteria	14
Introduction.....	14
Recent developments.....	15
1.1. Democracy and the rule of law	15
The parliament.....	15
The executive	15
The judicial system.....	17
Anti-corruption measures.....	19
1.2. Human rights and the protection of minorities	20
Civil and political rights	21
Economic, social and cultural rights	21
Minority rights and the protection of minorities.....	22
1.3. General Evaluation.....	27
2. Economic criteria	29
2.1. Introduction	29
2.2. Economic developments	29
2.3. Assessment in terms of the Copenhagen criteria.....	32
The existence of a functioning market economy	32
The capacity to cope with competitive pressure and market forces within the Union.	35
2.4. General evaluation	37
3. Ability to assume the obligations of membership.....	39
Introduction.....	39
3.1. The chapters of the <i>acquis</i>.....	41
<i>Chapter 1: Free movement of goods</i>.....	41
Overall assessment	43
<i>Chapter 2: Free movement of persons</i>	44

Overall assessment	45
Chapter 3: Freedom to provide services.....	46
Overall assessment	47
Chapter 4: Free movement of capital	49
Overall assessment	49
Chapter 5: Company law.....	50
Overall assessment	52
Chapter 6: Competition policy.....	54
Overall assessment	54
Chapter 7: Agriculture.....	55
Overall assessment	59
Chapter 8: Fisheries.....	61
Overall assessment	62
Chapter 9: Transport policy.....	63
Overall assessment	65
Chapter 10: Taxation	66
Overall assessment	67
Chapter 11: Economic and monetary union.....	68
Overall assessment	68
Chapter 12: Statistics	69
Overall assessment	70
Chapter 13: Social policy and employment.....	71
Overall assessment	73
Chapter 14: Energy.....	74
Overall assessment	76
Chapter 15: Industrial policy.....	77
Overall assessment	77
Chapter 16: Small and medium-sized enterprises.....	78
Overall assessment	79
Chapter 17: Science and research.....	80
Overall assessment	80
Chapter 18: Education and training.....	81
Overall assessment	81
Chapter 19: Telecommunications and information technologies.....	81
Overall assessment	82
Chapter 20: Culture and audio-visual policy.....	83
Overall assessment	83
Chapter 21: Regional policy and co-ordination of structural instruments... 	84
Overall assessment	85

Chapter 22: Environment	87
Overall assessment	89
Chapter 23: Consumers and health protection	90
Overall assessment	91
Chapter 24: Co-operation in the field of justice and home affairs	92
Overall assessment	95
Chapter 25: Customs union	100
Overall assessment	101
Chapter 26: External relations	102
Overall assessment	103
Chapter 27: Common foreign and security policy	104
Overall assessment	104
Chapter 28: Financial control	105
Overall assessment	106
Chapter 29: Financial and budgetary provisions	107
Overall assessment	107
3.2. Translation of the <i>acquis</i> into the national languages	108
3.3. General evaluation	108
C. Conclusion	111
D. Accession Partnership and National Programmes for the Adoption of the <i>Acquis</i>: Global assessment	115
1. Accession Partnership	115
Short-term priorities	115
Medium-term priorities	118
2. National Programme for the Adoption of the <i>Acquis</i>	121
Annexes	123
<i>Human Rights Conventions ratified by the Candidate Countries, 30 September 2001</i>	124
<i>Statistical data</i>	125

A. Introduction

a) Preface

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

The European Council in Luxembourg decided that

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

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

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

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

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

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

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

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

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

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations,¹ have served as additional sources. Council deliberations and European Parliament reports and resolutions² have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

¹ As in previous years, the Report does not mention any commitments undertaken or requests made in the context of the accession negotiations.

² For the European Parliament the *rapporteur* is E. Schroedter.

b) Relations between the European Union and Latvia

Recent developments under the Association Agreement (including bilateral trade)

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

The fourth meetings of the Association Council and the Association Committee were held in February and June 2001 respectively. The system of sub-committees continues to function as a forum for technical discussion.

Since the Commission's last Regular Report, the Joint Parliamentary Committee comprising representatives of the Latvian and European Parliaments met in January and September 2001.

Latvia's trade with the EC has continued to increase, both in absolute terms and in its rate of growth. Latvia's exports to the EC accounted for 64.6 % of total exports during 2000. Imports from the EC amounted to 52.4 % of total imports in 2000. Latvia's main export to the EC was wood, while the most important imports from the EC to Latvia were machinery and agricultural goods.

Regarding agricultural products, a new agreement on reciprocal concessions with Latvia entered into force in July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement. As a consequence of this agreement, approximately 76 % of traditional EC agricultural imports from Latvia are duty-free, while 24 % of EC agricultural exports to Latvia are exempted from duties. A second round of bilateral negotiations for trade liberalisation is presently being prepared and will cover more sensitive sectors, in which current trade is low, in particular due to a high degree of tariff protection. For processed agricultural goods, an agreement between the negotiating parties at technical level was reached in July 2000, and an Association Council decision is in preparation. Negotiations with Latvia concerning new reciprocal concessions in the field of fish and fishery products were concluded between the negotiating parties at technical level in November 2000, and an Association Council decision is in preparation.

The implementing rules for state aid and anti-trust measures under the Europe Agreement entered into force in March and April 2001 respectively.

Since July 2001, the direct investment regime applicable for security services has been in line with the Europe Agreement. However, legislation concerning the acquisition of land is still not in line with the Europe Agreement.

In the area of conformity assessment and acceptance of industrial products, a Framework Agreement for a Protocol on European Conformity Assessment (PECA) had been initialled in July 2000. Negotiations on sectoral annexes continued, and annexes for four sectors (electrical safety, electromagnetic compatibility, toys and construction products) were initialled in April 2001.

During the last year, Latvia has continued to work towards meeting the commitments made in the Joint Assessment on medium-term economic policy priorities, which was concluded between the Commission and Latvia in February 1999.

Accession Partnership / National Programme for the Adoption of the Acquis

A revised Accession Partnership was adopted in December 1999. Its implementation is reviewed in Chapter D of this report. This Regular Report is accompanied by a proposal from the Commission to update the Accession Partnership.

In July 2001, Latvia presented a revised National Programme for the Adoption of the *Acquis* (NPAA), in which it outlined its strategy for accession, including how to achieve the priorities of the Accession Partnership (*see Chapter D below*).

Community aid

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

For the years 2000-2002 total financial assistance to Latvia amounts annually to at least €30 million from Phare, €22.2 million from SAPARD, and between €36.4 and 57.2 million from ISPA.

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

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

The Phare programme allocated to Latvia commitments of €248.2 million during the period 1992-1999 and €34.8 million in 2000³. The **2001 Phare Programme** for Latvia consists of an allocation of €31.4 million for the National Programme, concentrated on the following priorities:

- priority 1: Political Criteria (€2 million), including Promotion of Integration of Society in Latvia;

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

- priority 2: Reinforcement of Institutional and Administrative Capacity (€ 5.4 million), including Strengthening Tax and Customs Administration, Development of CAP Management Mechanisms, and Maritime Transport;
- priority 3: Employment and Social Affairs (€2.2 million), including Promotion of Bi-Partite Social Dialogue, and Development of Civil Society;
- Priority 4: Justice and Home Affairs including Border control (€ 10.6 million), including Inspection Infrastructure at Seaports and Railroad Border Crossings, Asylum and Migration Management System, and Prevention and Combatting Organised Crime;
- Priority 5: Economic and Social Cohesion (€ 9 million), including Development of the business environment in Latvia;
- Priority 6: Participation in Community Programmes and Agencies (€2.2million).

An additional € 3 million has been allocated for the Baltic Cross Border Co-operation Programme.

Latvia 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, Latvia participates in the following Community programmes: Leonardo da Vinci II, Socrates II, Youth, Life III, Culture II, Small and Medium-Sized Enterprises and the Fifth Framework Programme on Research and Technological Development. Following the ratification and entry into force of the agreement, the formal participation Latvia's in the European Environment Agency will start in January 2002. In order to streamline Community legal procedures and thus facilitate future participation in Community programmes, a Decision is in the process of being adopted by the EU-Latvia Association Council establishing the general principles for such participation. Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields, such as the Economic and Finance sector, including statistics, the Internal Market and Justice and Home Affairs, including Eastern Border Management. In the areas of transport and environment, important infrastructure projects have been completed. In Latvia, Phare for example played a particularly important role in:

- Training and Expert Assistance for the Latvian Border Guard (€ 1.0 million). The project implemented by way of Twinning focused on very practical matters, such as development of effective document control. It provided substantial training for the Latvian Border Guard's administration in terms of budget planning, human resource management and strategic planning. About one third of the Border Guard participated in this project, which has sustainably improved the capacity of the State Border Guard.
- In the area of social integration, Phare has been the biggest supporter of the Latvian Language Training Programme (€3.2 million since 1996), a multi donor programme hitherto administered by the United Nations Development Programme, but due to be fully managed by the Latvian authorities in the future. The programme has focused on enhancing Latvian language training in minority schools, providing language training opportunities for targeted groups of adults and promoting social integration at community level.

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

Significant further efforts are required from the Latvian authorities to ensure that sufficient qualified staff and resources are available for the management of the pre-accession funds. The ability to programme and monitor, especially in connection with Phare, are in particular need of strengthening. Developing a culture of co-ordination and co-operation among the various authorities involved is essential.

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

The plan is based on three priorities, namely, the development of sustainable agriculture (54% of EC funds), integrated rural development (36% of EC funds), and improvement of the environment (4% of EC funds). The average annual allocation will amount to € 54.8 million during the period 2000-2006, of which € 22.2 million (at 2000 prices) represent the Community contribution. In January and March 2001, the multi-annual financing agreement and the annual financing agreement for 2000 were signed.

The Rural Support Service has been established and preparations for its accreditation as the SAPARD Agency are ongoing. In July 2001, the procedures for national accreditation in Latvia were completed, and the necessary procedures on the Community side are underway.

As concerns the **ISPA** programme, the Latvian government has drew up strategy papers for transport and environment, which were completed in 2000. For transport, the emphasis is put on the rehabilitation of TINA Road Corridor I (Via Baltica) and the modernisation of the East-West railway link. In the area of the environment, the Latvian government has defined wastewater and drinking water (in the 7 biggest cities, as well as for the major river basins) and waste management (closure of old landfills and opening of new sites that meet EC standards) as the priorities for ISPA financing.

By the end of 2000, four transport projects had been approved (upgrading of the Gauja-Lilaste section of the Via Baltica with an ISPA contribution of €4.7 million; upgrading of airport access road, (€5.9 million); Rezekne Rail Reception Yard, (€10.5 million); supply of turnouts on the East-West link, (€ 43.6 million); and technical assistance for project preparation in the rail sector, (€0.4 million), as well as three environment projects (all three related to water services in Riga, Jelgava and Ventspils, with a total value of €37.7 million). So far in 2001, four projects in the field of the environment were approved (solid waste management in Ventspils, € 6.2 million; Ziemeļvidzeme, €8.8 million; and Liepāja, €14.4 million; as well as technical assistance of €4.5 million). More projects are under preparation.

Implementation of the ISPA projects follows the same institutional framework as for the Phare programme, with the National Fund at the Ministry of Finance being in charge of overall financial management and Implementing Agencies being responsible for the technical implementation. All necessary documents and structures for a successful implementation of ISPA are now in place.

For the programming and financial management of SAPARD, a different system will apply which reflects the EAGGF (European Agricultural Guidance and Guarantee Fund) rules and is based on a fully decentralised approach through an accredited paying and implementing agency.

Twinning

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

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*.

A total of 373 twinning projects, primarily in the fields of agriculture, environment, public finance, justice and home affairs and preparation for the management of Structural Funds, have been funded by the Community between 1998-2000. These represent the principal priority sectors that have been identified in the Accession Partnerships. But also other important sectors of the *acquis* have been addressed through twinning, for example, social policy, fight against drugs, transport, and telecommunications regulation.

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

For Latvia, there are currently eight projects being implemented by twinning. They include support to enhance the capacity of the tax and customs administration in the State Revenue Service with partners from Sweden (together with Belgium). In the field of agriculture, the issue of food control at national and regional level is being addressed with the participation of Germany. One project addresses various issues of law approximation, such as industrial policy, intellectual property rights and agriculture, with the participation by a team from Sweden. One

project under Consensus III is assisting the relevant Latvian authorities in the area of occupational health and safety at work with the help of a counterpart from Spain.

Under the Phare 2000 programme, partners from Finland and Sweden have been providing support to the Latvian border authorities to help them to develop an integrated border management strategy. Finland is also leading a project with a partner from Sweden to enhance the administrative capacity of the Central Statistical Bureau. Experts from Sweden and the United Kingdom are providing support to strengthen the Latvian Fisheries Administration. A team from the United Kingdom is providing significant assistance for the Ministry of Finance and related bodies in fields such as public procurement and external audit.

Further projects for twinning financed under the 2000 programme are being prepared and are scheduled to start soon. They include, for example, support to develop strategic and administrative capacity in the area of drug control and drug prevention, with Spanish counterparts.

Negotiations / screening

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

Since the opening of the accession negotiations, substantial discussions on the individual chapters of the *acquis* have been launched, and by June 2001, negotiations on all chapters (with the exception of Chapters 30 – Institutions and 31 – Other) had been opened.

By the end of September 2001, the following 16 negotiation chapters had been provisionally closed: Free movement of goods, Free movement of persons, Free movement of services, Movement of capital, Company law, Economic and monetary union, Statistics, Social policy and employment, Industrial policy, Small and medium-sized enterprises, Science and research, Education and training, Culture and audiovisual, Consumers and health protection, External relations and Common foreign and security policy.

B. Criteria for membership

1. Political criteria

Introduction

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

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

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

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

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

The section below aims to provide an assessment of developments in Latvia since the 2000 Regular Report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Latvia’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Latvia’s ability to

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

implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part *B.3.1.* of this Report.

Recent developments

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

In March 2001, municipal elections took place. The participation rate was 62%, representing a 5% increase compared to the 1997 municipal elections. Countrywide, the Social Democratic Party received the strongest support. The election results led to a shift in power in some of Latvia's bigger cities, including the capital Riga, where a Social Democratic Mayor was subsequently elected by the new Riga City Council.

1.1. Democracy and the rule of law

As mentioned in the previous Regular Reports, Latvia 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

The Parliament continues to operate smoothly. As had been foreseen, it amended its rules of procedure in February 2001 to specify its competencies in EU matters, thereby codifying already existing practice. The changes mean that, as concerns accession negotiations, the Parliament's European Affairs Committee reviews and endorses the Latvian positions on the individual negotiation chapters before they are submitted to the EU.

The changes in the rules of procedure also foresee that the government is to report to Parliament twice a year on its achievements and future plans as concerns EU issues. So far, the government has submitted two such reports to the Parliament, and in May 2001, a debate on the state of the implementation of the « Strategy of the Republic of Latvia for the Integration into the European Union », which Parliament had adopted in February 2000, took place in the plenary.

Since last year, a new annotation system for draft laws and legal acts has been introduced in Parliament with a view to providing legal, financial, economic and social impact assessment of draft legislation.

The executive

During the last year, two important pieces of legislation to provide the legal framework for the public administration were adopted, namely the Civil Service Law and the Law on Agencies, and preparations for their implementation started. A new Strategy for Reform was adopted, and further practical measures to improve the functioning of the administration were also introduced.

Under the 1999 Accession Partnership, short-term priorities include to "accelerate reform of the public administration including strengthening of the relevant administrative structures" and to

"adopt a new civil service law". Medium-term priorities are to "develop a professional and stable civil service including strengthening of policy analysis and impact assessment capacity of Ministries, as well as human resource management at all levels of government" and "improve the capacity of the public administration to implement and manage the *acquis*, in particular through ensuring minimum staffing levels and training".

At the conceptual level, a new Public Administration Reform Strategy for the years 2001-2006 was adopted in July 2001 together with an implementing programme. The new Strategy concentrates on increasing accountability, efficiency, and impartiality of the Public Administration and also foresees the establishment of a central co-ordinating council involving all ministries.

So far, the absence of an adequate status for civil servants, as well as the lack of career prospects and the low salaries in the public sector, resulting in a high turnover of staff, have made it difficult to retain qualified staff. This has been one of the most important obstacles hampering the effective functioning of the public administration. In September 2000, the legal basis for the status of civil servants was finally created with the adoption of the new Civil Service Law.

The Law itself came into force in January 2001. It establishes the scope of the civil service, which includes the general service and various specialised groups of civil servants, and defines the main duties of civil servants. The total number of civil servant posts in the public administration is 27 831. The process of awarding civil service status is ongoing. For the moment, 25 508 have been filled. The adoption of secondary legislation and its implementation has started. So far, new procedures for the nomination and selection of civil servants, the determination of civil servant grades, the regular evaluation of performance, disciplinary surveillance and career development have been introduced. Since January 2001, a Civil Service Code of Ethics is also in force, which lays down principles of behaviour for civil servants.

As concerns the establishment of a unified remuneration system, for which the new Civil Service Law also provides the legal basis, a conceptual document of January 2000 had foreseen its introduction by the end of 2000. A new conceptual document of January 2001 now foresees the completion of pay reform within three years. In the meantime, no provisions for the implementation of the Civil Service Law were made in the national budget 2001, and it remains to be seen to what extent the government's commitment to reform the civil service will manifest itself in the 2002 national budget.

As concerns further framework legislation, in March 2001, a Law on Agencies was adopted with the objective of improving the transparency and accountability of the public sector agencies. The Law came into force in April 2001, and preparations for its implementation are underway, including drawing up a clear set of criteria for establishing public sector agencies, implementation of internal audit, financial management and accountability, as well as a programme for transforming the legal status of the around 200 existing agencies, which is expected to be carried out during 2002. The Framework Law on the Public Administration is still pending in Parliament, as is a Law on Administrative Procedure.

A policy planning unit was set up in the State Chancellery in mid-2000 to improve policy co-ordination at central level. During its first year of existence, the unit concentrated on improving the policy-making process in general and assessing cross-sectoral issues. In April 2001, the

government adopted methodology guidelines for integrating medium-term policy priorities in the national budgetary process, which also aim at facilitating policy planning.

As concerns practical measures to rationalise the functioning of the Public Administration, a methodology for carrying out horizontal functional reviews of individual ministries was adopted in November 2000. While functional reviews had already been carried out since 1999, two further reviews were completed in 2000 (Ministries of Economy and Justice).

Training of civil servants is mainly carried out by the Latvian School of Public Administration. During the year 2000, 7472 civil servants attended training courses there, and during the first half of 2001, over 5000 civil servants benefited from training. Training priorities include EU policies, legal drafting, administrative procedures, prevention of corruption, strategic planning and personnel management.

While Latvia has continued to address the issue of Public Administration Reform both at the level of framework legislation and of carrying out practical measures, the legal framework still needs to be completed and enforced, and concrete results on a broad scale, such as the implementation of pay reform, have yet to be achieved.

The judicial system

During the last year, some limited further progress has been made in advancing with the reform of the judicial system, both at the conceptual level and with the adoption of framework legislation and the pursuit of practical measures.

The need for a reform of the court system has been endorsed at the highest political level. At the end of 2000, the Ministry of Justice completed an evaluation of the functioning of the court system and concluded that reforms needed to concentrate on four areas, namely the enforcement of court decisions, speeding up court proceedings, modernising the courts and training judges. The provision of increased funds to implement the reforms constitutes a priority for the 2002 national budget.

The legal basis of the judicial system is the Law on Judicial Power of 1992. While the Latvian Constitution provides for an independent judiciary, the executive, in particular the Ministry of Justice, has retained extensive authority over judicial administration, finances and career paths.

Concerning the legal framework, in April 2001, the government adopted a Law on Sworn Court Bailiffs, which had been pending for several years, but still needs to be adopted by Parliament. So far, court bailiffs do not constitute an independent profession, and serious difficulties exist concerning the enforcement of court decisions, which has also been due to insufficient co-ordination between the court system and court bailiffs. A new Law on Criminal Procedures and amendments to the Law on Judicial Power still remain to be adopted.

During the last year, 6 positions as judges were filled, and 16 of 333 remain vacant, as compared to 24 of 325 at the same time last year (and 26 in July 1999). The overall level of salaries for judges remains comparatively low. Salaries will be raised in the framework of the general reform of the remuneration system of the public administration (*see above, "The executive"*).

Efforts to raise the professional qualifications of judges continued. During the last year, the Judicial Training Centre continued to carry out its training plan 2000-2002, which foresees two weeks of training for all judges each year and includes training in national, international, and EC Law, as well as good judicial practices and human rights. Despite the availability of increased funds in 2000 and again in 2001, resources continued to be too scarce, and some important training activities could only be carried out with external assistance, including Phare. Training continued to be available for legal professions other than judges, including bailiffs, prosecutors, notaries and attorneys-at-law. Generally, the level of qualification of judges continues to be comparatively low, and it will be important to reinforce the training of judges in the coming years, especially as concerns EC law, in order to be able to enforce the *acquis* upon accession to the EU.

A limited improvement in the backlog of court cases could be observed, as the implementation of the Law on Civil Procedures of 1999 started to show first results, and amendments to the existing Law on Criminal Procedures of February 2001 provided for the transfer of competence on criminal cases to the regional courts. In mid-2001, the total number of pending criminal court cases amounted to 5 028 and of pending civil cases to 24 002, as compared to 5 906 criminal and 24 467 civil cases in mid-2000. To improve the situation, eight additional posts for judges were created in 2000 for the Riga District Court, where an important part of the backlog is situated. However, delays in court proceedings continue to pose a serious problem, especially in Riga.

A related problem stemming from the backlog of court cases is the resulting length of *pre-trial detention*, which has received important international criticism, especially as concerns juveniles, for whom the length of pre-trial detention is not always in conformity with international standards (*see also below, section "Civil and political rights"*). Initial improvements can be reported as concerns alternative penalties, including for juveniles, instead of imprisonment, and further changes are planned with the revision of the Law on Criminal Procedures. In 2000, 596 cases of sentencing to Community service were registered, as compared to 183 in 1999. A probation service has still not been established.

Based on its guidelines of March 2000, the Ministry of Justice continued to work towards improving the infrastructure of court buildings with a view to preventing corruption, improving public service, and ensuring the protection of witnesses. Also with a view to ensuring the security of court buildings, new premises for the Riga Regional Court are presently being constructed, and two further courts in Riga and Daugavpils are being renovated. The computerisation of courts has continued, and all five regional as well as 22 of 34 local courts are now fully equipped.

Overall, while several of the deficiencies of the judicial system have been identified and continue to be addressed, efforts in this area need to be reinforced, and sufficient funding needs to be secured. The legal framework still needs to be completed (including adoption and implementation of laws on court bailiffs and on criminal procedures), the *de facto* independence of the judiciary reinforced, the training of judges expanded, and the backlog of court cases and pre-trial detention periods need continued attention. In addition, the upgrading of the infrastructure of courts needs to be completed.

Anti-corruption measures

The last Regular Report stated that corruption continued to pose a serious obstacle to the proper and efficient functioning of the public administration in Latvia. Since then, the government has remained committed to the fight against corruption. Some positive steps could again be noted, including at the conceptual level, in clarifying the institutional set-up and in implementing practical measures to counter corruption.

After the adoption in 2000 of an anti-corruption programme and a conceptual document foreseeing legal and institutional changes, three working groups were established at the end of 2000 to draft legislation on political party financing and a new Anti-Corruption Law, as well as on the creation of a new anti-corruption institution. While the government decided in September 2001 to set up the Corruption Prevention and Combating Bureau, the respective Law still needs to be adopted by Parliament. The institutional set-up for the fight against corruption had already been enhanced with the creation of a Secretariat for the Corruption-Prevention Council in December 1999; however, many different institutions maintained responsibilities in the area of anti-corruption. In May 2001, the government adopted a revised Corruption Prevention Programme, which includes measures such as protection of whistleblowers, improvement of criminal procedures, internal audit and the system of financing of political parties.

Changes in several pieces of sectoral legislation have also been made with a view to introducing more transparency, thereby helping prevent corruption. These include amendments to the Public Procurement legislation, foreseeing the publication of all offers on the internet, and amendments to the legislation covering state enterprises, providing that all state proxies must be nominated in an open competition. In April 2001, new rules concerning the remuneration system for state proxies in state-owned companies entered into force.

Specific measures are being implemented in various parts of the administration. The State Police is carrying out a strategy for fighting corruption amongst public officials and established a database in October 2000 to register all violations, while the State Revenue Service also continued its own programme. In the Customs authorities, a rotation principle for officials is being enforced.

Since January 2001, a Civil Service Code of Ethics is in force, which also contains provisions related to conflicts of interest. The training courses for civil servants at the Latvian School of Public Administration contain some anti-corruption elements, and seminars for judges, prosecutors, policemen and representatives of the mass media were also held. The government also co-operates with the Foreign Investors' Council on matters related to the fight against corruption.

In 2000, 34 cases of passive bribery and 9 cases of active bribery were detected in state institutions, as well as 42 cases of abuse of official status. In these cases, 5 sentences for passive bribery (compared to 23 in 1999) and 6 sentences for active bribery (compared to 9 in 1999) were handed down; 13 persons were sentenced for abuse of official status. During the first half of 2001, 99 cases of passive and active bribery were registered, and 28 persons were sentenced. During the year 2000, 4.8% of public official's declarations were reviewed instead of the obligatory 2%, and as a result, 287 public officials were held liable.

Latvia ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of proceeds from crime in 1998 and the Council of Europe Criminal Law Convention on Corruption in December 2000. The necessary changes to the Latvian Criminal Law remain to be adopted by Parliament. Latvia joined the Council of Europe Group of States Against Corruption (GRECO) in June 2000. Furthermore, Latvia, jointly with Estonia and Lithuania, is developing the Baltic Anti-Corruption Initiative with the support of the OECD Secretariat. The initiative focuses on legislative improvements, capacity building, and community involvement in order to better tackle corruption. The Council of Europe Civil Law Convention on Corruption has not yet been signed (*see Chapter 24 – Co-operation in the field of Justice and Home Affairs*).

Despite continued efforts during the last year to advance at conceptual level, with the legal framework and with the implementation of various anti-corruption initiatives, it appears that these measures have not yet translated into concrete results on a broad scale. While it is difficult to quantify the level of corruption in any country, the perceived level of corruption in Latvia continues to be relatively high. Further sustained efforts are therefore still needed to complete the legal framework and to ensure effectiveness in the fight against corruption. This will also be vital in the context of overcoming the mistrust of the public in the public administration and in earning private investors' confidence.

1.2. Human rights and the protection of minorities

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

Latvia has acceded to most of the major international human rights instruments. The Council of Europe Framework Convention for the Protection of National Minorities and the European Social Charter have still not been ratified.

In November 2000, Latvia signed Additional Protocol N° 12 to the European Convention on Human Rights prohibiting discrimination on any ground. No other important new developments regarding the transposition of the anti-discrimination *acquis* can be reported. (*see Chapter 13 - Social policy and employment*).

In early 2001, and also following recommendations by the OSCE, discussions were launched to transform the existing National Human Rights Office (NHRO) into an ombudsman institution with a broader mandate. At the initiative of the Latvian President, a working group was set up in early 2001 to study different options. In May 2001, international experts submitted a report on possibilities for transforming the Office. The report recommended short-term measures to strengthen the existing Office and legislative and institutional changes in the long term to strengthen the overall regime for the protection and promotion of human rights. The NHRO subsequently started to implement some of the short-term recommendations with a view to improving co-ordination and avoiding duplication between all state bodies reviewing complaints.

Civil and political rights

Since the last Regular Report, positive developments included rendering the Constitutional Court accessible to individual complaints and some improvements in prison conditions, whereas the situation concerning pre-trial detention remains serious.

Following amendments to the Law on the Constitutional Court of November 2000, which entered into force in July 2001, individuals have been granted the right to turn to the Constitutional Court regarding violations of their basic rights. Previously, only the President, some Parliamentarians, the government, the plenum of the Supreme Court, the Council of State Control, the National Human Rights Office and city councils could turn to the Court.

As concerns *trafficking in human beings*, Latvia remains a country of origin. The trafficking in women and children for prostitution abroad continues to be reported as widespread. The Criminal Law has not yet been amended to introduce criminal liability for trafficking in human beings.

The length of *pre-trial detention* remains a serious concern. The share of pre-trial detainees has risen to 44% of the total prison population. The situation continues to be especially serious for juveniles, who constitute 70% of the pre-trial detainees. The length of pre-trial detention for juveniles is not always in conformity with international standards. At the initiative of the President, a working group was set up in 2001 to improve legislation in this area.

As during the previous year, efforts continued to improve *prison conditions*. Construction work was carried out on prisons in several cities and was completed for one building of Riga's Central Prison in April 2001. However, less funding than in 2000 was foreseen in the public investment programme for 2001. In 2001, the Dobele short-term police detention centre was closed due to unsatisfactory conditions, and construction work on a new facility continued. The number of tuberculosis cases in prisons has further decreased. However, the situation in prisons and detention centres continues to be reported critical as concerns health and sanitary conditions, overcrowding, and the need for renovation of many buildings. There appears to be a lack of occupation possibilities for inmates, and social-rehabilitation programmes need to be further developed. Some structural problems have still not been resolved, and the guarding of prisons is still partially carried out by a special regiment of the Ministry of Interior, which continue to guard seven out of the total of 15 institutions, instead of professional guards. However, a conceptual document to address this issue has been adopted.

The process of aligning refugee and *asylum* legislation to international standards as well as the *acquis* continued with the drafting of new legislation. Due to the inhumane living conditions, one of the centres for illegal immigrants in Riga was closed in mid-2000. Work on improving the situation in the centre for illegal immigrants in Olaine is ongoing.

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

Economic, social and cultural rights

Since the last Regular Report, positive developments in the area of equal opportunities and unemployment benefits took place.

As concerns *equal opportunities*, important progress in transposing the *acquis* was made with the adoption of the Labour Code and the Law on Labour Protection. A conceptual document on gender equality was adopted by the government. NGOs active in the field have formed an NGO Coalition for Gender Equality in order to raise public awareness. The number of female Members of Parliament is 21 out of 100. A first court case held in 2000 concerning equal treatment, and in particular equal pay, had been appealed against by the employer. The Appeals Court finally upheld the decision that the employer had treated the female employee unfairly (*see Chapter 13 - Social policy and employment*). However, it appears that women continue to face discrimination in the workplace in terms of hiring and pay.

In the area of *children's rights*, Latvia ratified the European Convention on the Exercise of Children's Rights in May 2001.

As to the treatment of *disabled* persons, legislation to protect the rights of the mentally ill has still not been adopted. The conditions in some of the facilities for the mentally ill remain sub-standard.

The 1999 and 2000 Regular Report had referred to the problem of *unemployment benefits*, whereby a very high number of employees would not have been eligible for benefits because no social tax had been paid by their employers. To address this problem, legislation was adopted in June 2001, entitling employees to social insurance benefits even if the employer failed to pay the required contributions.

Latvia has not yet ratified the *European Social Charter*.

Minority rights and the protection of minorities

Latvia signed the European Convention on Nationality in May 2001 but introduced reservations on certain aspects related to the acquisition of Latvian citizenship. Latvia acceded to the 1954 UN Convention Relating to the Status of Stateless Persons in September 1999, but has introduced reservations concerning the application of the Convention's provisions on social security and identity papers. In March 2001, the Latvian Parliament rejected a renewed proposal to ratify the Council of Europe Framework Convention for the Protection of National Minorities. The Parliament had previously decided in May 2000 not to ratify the Convention for the moment due to inconsistencies of Latvian legislation with certain provisions of the Convention.

Since the last Regular Report, positive developments included further simplifications of the naturalisation procedure and the adoption of the long version of the Society Integration Programme, as well as legislation to set up a Social Integration Foundation. Further implementing legislation for the Language Law was adopted, as well as legislation specifying possible violations for which fines are to be levied.

The naturalisation procedure

Of Latvia's total population of about 2.37 million, around 534 000 persons were non-citizens residents in mid-2001. While Latvian citizenship had previously been rather difficult to obtain, amendments to the Law on Citizenship entered into force in November 1998 following a

referendum. Practically all non-citizens residents of Latvia are now entitled to apply for citizenship.

In 2000, 14 900 persons were naturalised as compared to 12 427 in 1999. However, while 15 170 persons applied for citizenship in 1999, the number of applications received in 2000 was considerably smaller (10 700). Altogether, since 1995, around 47 000 persons have been naturalised to date.

Several important measures to further simplify the naturalisation procedures were taken this year concerning language tests, naturalisation fees, language training and information. Concerning language tests, graduates (12th grade) of minority schools who pass the centralised Latvian language graduation exam no longer have to take the compulsory naturalisation language test or state language tests for the purpose of employment. The latter also applies for pupils leaving school after 9th grade. For technical reasons, no decision has yet been taken to also accept the “civic education” graduation exams from minority schools as equivalent to the history test of the naturalisation exams. In summer 1999, some pilot projects on this had been carried out. In August 2001, the government adopted amendments concerning the naturalisation history test, changing the format to replace some of the multiple choice questions with direct questions.

Because it appeared that the naturalisation fee represented an important obstacle for many potential applicants, the government decided in early June 2001 to reduce the standard naturalisation fee by 33% to €35.77 (20 LVL) and to enlarge the number of persons eligible for a 50% reduction of the fee to include university students and all groups of the disabled that had not been exempted from the requirement. Low-income applicants will either be exempted or pay a further reduced fee. Previously, pensioners, most categories of disabled persons, secondary school students, orphans and several other groups already benefited from exemption or reduced fees.

A further very important reason why many non-citizens did not apply for naturalisation in the past was the lack of information on procedures. With international help, the Naturalisation Board started to prepare a large-scale information campaign to promote naturalisation, to be carried out in the second half of 2001. In addition, information is provided through, for example, “Information days”, during which interested persons can take sample tests free of charge, the Board’s website, a free telephone hotline and the distribution of information materials, to which EC Phare also contributes financially, at several locations in Latvia.

One of the most important obstacles remains the lack of Latvian language proficiency among potential applicants. With international support, the Naturalisation Board is continuing to carry out a project to provide free language training for naturalisation candidates. In 2000, 830 persons benefited from this programme, and for the year 2001, the number of allocated places is 2000 (*see also below, section ‘Integration of minorities’*).

In 2001, the government reversed its earlier decision of 2000 and increased the funding of the Naturalisation Board again to cover the salaries of additional employees and to continue computerisation. Once this process has been completed both in Riga and in the regional offices of the Board, it is expected that waiting times to obtain Latvian citizenship will be further reduced. For the moment, the naturalisation process continues to take approximately six to seven months in Riga and four to five months in all other parts of Latvia.

As concerns stateless children, even though all children born after August 1991 are eligible, the number of applications has remained low. Altogether, 660 children had been granted citizenship by mid-2001, as compared to 437 in mid-2000. This is mostly because parents wish to naturalise at the same time as their children.

Latvia continues to follow all recommendations expressed by the OSCE in the area of citizenship and naturalisation. In the coming period, continued attention should be paid to the issues mentioned above, and activities to encourage naturalisation should be continued and enhanced. To maintain the momentum in the process, it will also be important that adequate funding for the Naturalisation Board continues to be available in order to permit the proper implementation of all its responsibilities.

Special passports for non-citizens

The total number of special passports issued since 1997 amounted to 586 994⁵ by September 2001, representing 99% of eligible non-citizens (compared to 97.9% in mid-2000).

During the last year, the Latvian authorities continued their efforts to assist with the procedures for exchanging old Soviet passports that had expired at the end of March 2000. Despite the introduction by Russia of visas for Latvian non-citizens in January 2001, travelling to Russia is still easier with a non-citizen passport than with a Latvian passport, as the cost and nature of the visas differ.

Integration of minorities

In the 1999 Accession Partnership, the short-term priorities included “align the Language Law with international standards and the Europe Agreement” and the medium-term priorities included “pursue integration of non-citizens in particular by extending language training programmes for non-Latvian speakers”. During the last year, a number of important developments have taken place in this regard.

In February 2001, the long version of the Programme “The Integration of Society in Latvia” was finally adopted by the government. The Programme is based on a framework document of December 1999. Together with the earmarking of funds in the national budget, this represents considerable progress as a statement on government policy towards social integration. The document covers civic participation and political integration, social and regional integration, education, language and culture, as well as information, and contains three separate categories of projects, namely projects that are already being implemented, projects which should be implemented as soon as funding had been secured, and possible future projects. In November 2000, a department was set up within the Ministry of Justice to co-ordinate activities, and an advisory council on social integration issues was established. The new institutional set-up also foresees the creation of a Social Integration Foundation (in charge of selecting projects and securing financing), and the Law providing for the creation of the Foundation was adopted by Parliament in July 2001. Following the entry into force of the Law in September 2001, work started to set up the Foundation, including the nomination of representatives from local governments, non-governmental organisations and others to the Foundation’s Council. Some initiatives were also launched at regional and local level, where several regions and cities started

⁵ The total number of passports printed is higher than the current number of non-citizens mostly due to naturalisation.

to develop their own integration programmes. By mid-2001, integration councils or working groups had been established in 18 districts of Latvia, including several big cities.

At present, about 42% of the population has a language other than Latvian as their first language. Language training will therefore remain one of the key instruments for the integration of the society in the years to come. By mid-2001, more than 45 000 persons had benefited from the Latvian Language Training Programme (1996-2006). The programme also includes activities to promote integration at the community level (summer camps, youth clubs, etc) and the provision of modern teaching materials. EC Phare continues to be one of the most important contributors to this multi-donor programme. Demand for training is expected to remain high in the coming years, and there continues to be a significant shortage of teachers. Since the beginning of 2001, the Ministry of Education and Science has taken over responsibility for the Latvian Language Training Programme, which was previously administered by the UNDP. In 2001, the government allocated direct state funding to the programme for the first time with an amount of €765 000 (428 000 LVL). It will be important that this support be maintained and increased in the coming years.

During the last year, and as foreseen by the Education Law of 1998, the government continued to implement the transition to bilingual education. Teachers at minority schools had to demonstrate a certain level of proficiency in Latvian. As of 2004, all state-funded schools will have to provide secondary education (from 10th grade onwards) in the state language only. Minority language education will continue to be available at public schools until 9th grade. Some problems have been encountered in the transition, including the lack of sufficient training for teachers, as well as of teaching materials. As had been done in 2000, increased additional funds were again allocated in the 2001 national budget to allow for increases in the salaries of language and bilingual teachers. This is a welcome step. In continuing with the educational reform, it will be important to ensure that the confidence in the process is maintained, that the quality of instruction does not suffer as a result of the rapid conversion to Latvian as the language of instruction and that the use of minority languages is maintained at all schools as far as possible.

In November 2000, further amendments to the implementing regulations of the Language Law were adopted as foreseen. Following recommendations by the OSCE, the amendments aimed at further defining the scope of language requirements for the performance of professional duties and also contained a list of professions where the legitimate public interest criterion can be invoked.

As stated in the last Regular Report, the Language Law (of 1999) and the implementing regulations are essentially in conformity with Latvia's international obligations. Furthermore, neither the Language Law itself nor the implementing regulations contain provisions that are manifestly incompatible with Latvia's obligations under the Europe Agreement. However, some of the provisions are worded in such a way that they could give rise to different interpretations.

In June 2001, amendments to the Administrative Violations Code were adopted, which foresee fines for eleven different violations related to the implementation of the Language Law. They include, amongst others, signing a work contract with an employee whose Latvian proficiency is insufficient for performing his/her professional duties; failure to use the state language on the level necessary to perform one's professional duties; failure to provide translations in meetings; failure to ensure the use of Latvian in office records; failure to use the state language in contracts

on the provision of medical treatment, health care, public safety and other public services; failure to create titles and names in the state language; failure to observe the regulations on providing information to the public; and “disrespect towards the state language.” The maximum fine will be up to €447 (250 LVL), the minimum €36 (20 LVL). Some of these criteria are not covered by the Language Law itself. To ensure that the principle of proportionality is respected, a revision of some of the provisions of the Administrative Violations Code would be appropriate, for example, as concerns violations due to “disrespect towards the state language”. It should be noted that the Administrative Violations Code specifies that any such violation would have to be established by a court.

It has been reported that the State Language Centre, which is in charge of enforcing the Language legislation, has, in some cases, taken a rather restrictive position. Preparations to establish guidelines for language inspectors on how to apply the Language Law have started in co-operation with the OSCE and the Council of Europe. Further, the requirement to submit documents to state and municipalities in the state language only or else accompanied by a notarised translation has been reported to pose certain difficulties for some groups of the population, including pensioners, the unemployed, and prisoners, given the cost of official translations. A constructive approach was taken in the city of Daugavpils, which employed a full-time translator to assist the public in preparing documents in Latvian.

In July 2001, the first court case brought by an individual was opened at the Constitutional Court. The claimant contested the compliance of certain norms of the Language Law and implementing regulations, and notably the requirement to spell names and surnames in Latvian, with the Latvian Constitution’s provisions on the inviolability of privacy. A similar case brought by a different person, whose name was changed to a different spelling in her Latvian non-citizen passport, was registered by the European Court of Human Rights in Strasbourg. In September 2001, the government adopted new regulations, providing for precise orthographic rules on how to spell both Latvian and foreign names in Latvian. Concrete examples for the transcription of names from Lithuanian, Estonian, English, German, Russian, Ukrainian and Belo-Russian were included.

It is important that the competent authorities, including the State Language Centre and the judicial system, only apply and enforce the Language Law and its implementing regulations to the extent required by a legitimate public interest, having regard to the principle of proportionality, as contained in Article 2 of the Language Law, and in view of Latvia’s international obligations, as well as the rights and freedoms guaranteed under the Europe Agreement. These include, for example, the exercise of business activities for enterprises from the European Union (*see Chapters 2 and 3 – Free movement of persons and Freedom to provide services*). A liberal attitude will also be particularly important with a view to Latvia’s accession to the European Union. In particular, once Latvia becomes a member state of the European Union, any European Union national or company would be able to invoke the principle of the prohibition of any discrimination on the grounds of nationality to challenge the application of the national legislation in practical cases. In the past, the Court of Justice of the European Community has taken a clear position in relevant cases related to language requirements.

Linguistic restrictions also remain apparent in legislation other than the Language Law. As reported last year, under Latvia's election legislation language requirements for candidates to parliamentary and local elections still remain. Following the municipal elections of March 2001,

newly elected officials in several cities were requested to submit proof of their language proficiency, even though they had the necessary language certificates to run as candidates. In February 2001, the European Court of Human Rights declared the case of a Latvian citizen of Russian origin admissible, who had not been allowed to run as a candidate in the parliamentary elections in 1998 due to an alleged insufficient knowledge of the official language, despite the fact that the candidate had previously presented the required language proficiency certificate. In July 2001, the United Nations Human Rights Committee considered the case of a candidate who was prevented from running for office in the 1997 local elections in Latvia on the grounds of insufficient language skills despite the existence of a language certificate. The Committee concluded that the State party was not able to demonstrate procedural correctness. In line with the International Covenant on Civil and Political Rights, the State party is under the obligation to provide the victim with an effective remedy. The Committee also noted that Latvia should take steps to prevent similar violations occurring in the future.

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

1.3. General Evaluation⁶

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

During the last year, the government remained committed to reforming the Public Administration and the judiciary, as well as to fighting against corruption. Strategic documents on Public Administration Reform and Corruption Prevention were adopted, as was framework legislation on public agencies, and practical measures were pursued in all three areas. It will now be necessary to maintain the momentum of Public Administration Reform with the completion of the legal framework and the development of a stable civil service, including through the introduction of pay reform. In parallel, the reform of the judicial system must be carried on, with particular attention to the legal framework, speeding up and enforcing court decisions, and addressing the issue of pre-trial detention. Measures to combat corruption, which remains a source of concern, need to continue with a view to achieving concrete results on a broad scale.

Further important steps were taken to promote the integration of non-citizens into Latvian society, notably measures to facilitate the naturalisation procedure and the adoption of both a more elaborate Society Integration Programme and the legal basis for the future Social Integration Foundation. The ongoing efforts to support the integration of non-citizens need to be sustained through the implementation of the comprehensive Society Integration Programme in all its aspects, including activities to encourage naturalisation and the expansion of Latvian language training. Latvia should ensure that the implementation of the Language Law respects

⁶ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

the principles of justified public interest and proportionality, Latvia's international obligations and the Europe Agreement.

Latvia has achieved progress towards meeting the short-term priorities of the Accession Partnership in the areas of the Language Law and language training, as well as administrative and judicial capacity. Some progress has also been made towards meeting the medium-term priorities in the areas of further integrating non-citizens, developing the civil service and improving the capacity of the public administration; however, these efforts need to continue.

2. Economic criteria

2.1. Introduction

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

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

In its 1998 Regular Report, the Commission while acknowledging that progress has been made, confirmed its Opinion. In its 1999 Regular Report, the Commission stated that:

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

In its 2000 Regular Report the Commission found that:

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

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

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

In the analysis below, the Commission has followed the methodology applied in the Opinion and the previous annual Regular Reports.

2.2. Economic developments

Growth accelerated rapidly during the past year. Induced by exports, investments and private consumption, real GDP grew by 6.6 % in 2000, and by 8.8 % in the first half of 2001. Thanks to the strong export performance, the current account deficit decreased significantly, despite unfavourable price developments in foreign trade. Nevertheless, the current account deficit was still sizeable, 6.8 % of GDP in 2000. Foreign direct investments covered more than 80 % of the current account deficit. In spite of the strong growth last year, inflation remained low. Important features of the fiscal policy last year were several tax reductions. Still, a decrease in public consumption, improved tax collection, and rapid growth in the economy helped the budget deficit to narrow, from 4.0% to 2.8 % of GDP. The planned budget deficit for 2001 is 1.7 % of GDP.

Main economic trends							
Latvia		1996	1997	1998	1999	2000	2001 latest
Real GDP growth rate	per cent	3.3	8.6	3.9	1.1	6.6	8.8 H1
Inflation rate ⁷							
- annual average	per cent	17.6	8.4	4.3	2.1	2.6	2.2 ⁸ Sep
- December-on-December	per cent	13.2	6.4	2.7	3.0	1.7	3.7 Sep
Unemployment rate, end-year	per cent						
- ILO definition		18.3	14.4	13.8	14.5	14.6	13.3 P Q2
General government budget balance	per cent of GDP	-1.3	1.8	-0.7	-5.3	-2.7	:
Current account balance	per cent of GDP	-5.4	-6.1	-10.6	-9.4	-6.9	:
	million ECU/euro	-220	-305	-576	-600	-543	-364 ⁹ Jan-Aug
Foreign debt							
- debt export ratio	per cent	18.8	20.6	31.6	57.5	53.8	:
- gross foreign debt	million ECU/euro	387	523	882	1,617	1,908	:
Foreign direct investment in flow							
- balance of payments data	per cent of GDP	7.4	9.3	5.8	5.1	5.7	:
	million ECU/euro	301	460	318	324	443	244 ¹⁰ Jan-Aug

The government has continued the work on structural reforms, emphasising in particular the improvement of the business environment. The last stage in the pension reform, a second, mandatory and funded pillar, entered into force in July 2001. In recent years, the privatisation process has turned from mass privatisation of small and medium-sized enterprises to privatisation of land and large enterprises. While privatisation of land has proceeded

⁷ PROXY HICP since 1998 (see methodological notes)

⁸ Moving 12 month average rate of change

⁹ Source: Website of National Bank

¹⁰ Source: Website of National Bank

successfully, there have been some delays in the privatisation of the remaining large enterprises. The supervision of public utilities has been placed under a new single regulatory agency, the Public Services Regulation Commission, as from September 2001. A unified supervisory institution for the financial market has been created. Its aim is to strengthen and stabilise the financial markets, and ensuring a co-ordinated approach to the supervision. Improvements to the business environment have included measures regarding taxes and administrative procedures. However, after several postponements, the Commercial Code is still not in force.

Main Indicators of Economic Structure in 2000		
Population (average)	thousand	2,373
GDP per head ¹¹	PPS	6,600
	Per cent of EU average	29
Share of agriculture ¹² in:		
- gross value added	per cent	4.5
- employment	per cent	13.5
Investment-to-GDP ratio ¹³	per cent	24.6
Gross foreign debt/GDP ¹⁴	per cent	24.6
Exports of goods & services/GDP	per cent	45.8
Stock of foreign direct investment	Million Euro	2,237
	Euro per head ¹⁵	943

Latvia has been catching up with the EU's income levels, although levels remain low. Recent years' growth has resulted in a further improvement of GDP per capita in terms of purchasing power standard. Compared to the EU average, it has increased to 29 % from about 24 % in 1995. Regional disparities in income levels are significant. Average incomes in the capital, Riga, were 32% (1998 data) of the EU average, whereas in three of the other four regions the levels were below 20%. The employment rate is still decreasing and reached 58.2% in 2000. The unemployment rate remained at about the same level as in 1999, at 14.6 %;

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

¹² Agriculture, hunting, forestry and fishing.

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

¹⁴ Estimated.

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

15.0% among men and 13.2% among women. Out of these, approximately 58 % were long-term unemployed, 5 percentage points more than in 1999. Unemployment is unevenly spread across the country. The eastern parts of Latvia are particularly affected, with unemployment rates several times higher than in Riga, which has the lowest unemployment rate.

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

The coalition government has conducted a policy broadly in line with its objectives since the inauguration in May last year. Among its most important objectives were to continue fiscal consolidation, the pension reform and to complete the privatisation of large-scale companies. Not all these objectives have been attained yet. The budget was amended at the end of last year resulting in a higher budget deficit than aimed at, and the privatisation process has to some extent been delayed because of political disagreement. However, the goal of EU accession serves to foster consensus about market-oriented reforms. The Pre-accession Economic Programme (PEP) was submitted at the beginning of May this year. Its preparation involved several ministries and some other institutions, and it was thereafter approved by the government. In April this year the government signed a stand-by arrangement with the IMF, including a budget deficit ceiling of 1.75 % of GDP this year.

In 2000, real GDP increased by 6.6 % year-on-year, and in the first quarter 2001 it accelerated to 8.2 % vis-à-vis the first quarter of 2000. Strong growth has been recorded for exports as well as for private consumption and fixed investment. The latter grew by 10.8 %, and constitutes approximately 25 % of GDP. In real terms, imports grew much less than exports. Public consumption, on the other hand, contributed negatively to growth, as did changes in inventories, which contributed -3.1 percentage points.

The unemployment rate remains fairly stable but at high levels. For several years now, the unemployment rate has been somewhat below or somewhat above 14 %. The stable unemployment rate mirrors employment, which in spite of strong growth remained unchanged in 2000. The participation rate continued its downward trend, and reached 56.8 % in November 2000, about 1.5 percentage point lower than in November 1999. The downward trend, as well as the latest developments, are largely explained by an increasing number of students, reducing the volume of the workforce.

Inflation remained low in 2000, showing a downward trend. On average, prices rose by 2.6 %. The annual consumer price index inflation continued to fall during the first few months of 2001, but started to rise later on this year to 3.7% in September (HICP), because of the Europe-wide rise in food prices. Prices of services increased significantly more than prices of goods, 5.4 % and 1.8 % respectively in 2000, but this has not been the case in 2001. The price rise of services was mainly due to increases in administered prices. Prices of alcoholic beverages and tobacco also rose significantly more than the average price level. The worldwide

rise in oil prices has so far not had any significant impact on the CPI. Producer prices rose only 0.6 % on average in 2000. In 2001, they started to rise at a slightly faster pace, at 1.9% in September.

The general government consolidated budget deficit declined from 4.2 % of GDP in 1999, to 2.8 % of GDP in 2000. According to harmonised EU standards (ESA95) this equals a reduction from 5.3 to 2.8 % of GDP¹⁶. Further reductions of the deficit are planned, and the target for 2001 is 1.7 % of GDP (1.4% according to ESA95). The reduction in 2000 was mainly a result of expenditure cuts - tight public consumption and a decrease in public investments. The deficit improved in both the central government and the social security sector, while it worsened in the small local government sector. Fiscal policy in the medium term, besides aiming at fiscal consolidation, reflects the priority which the government places on creating a tax system, which promotes a sound and thriving business environment. Social security contributions were cut both in 2000 and in 2001, and corporate income tax allowances in connection with investments were introduced in 2001. Work has been undertaken to improve budget planning and tax collection. The last step in the pension reform, a second pillar, was introduced in July 2001. The reform is not intended to raise total social contributions, and initially the system may require funding from the state. The general government gross debt increased somewhat in 2000, but it is still at a fairly low level, amounting to 14.1 % of GDP in 2000.

Reflecting the strong export performance, the current account deficit narrowed significantly last year. It fell from 9.6 % of GDP in 1999 to 6.8 % in 2000. During the first half of 2001, the current account deficit declined by 0.4 percentage points to 5.3% of GDP compared to the first half of 2000. The improvement of the current account deficit last year was largely a result of an increase in the surplus of the balance of services, while the trade deficit widened. The current account balance was furthermore positively affected by the development of net income and net transfers from abroad. The import of goods was surprisingly low last year, but it started to increase rapidly during the first quarter of 2001. The financial account showed a surplus, and foreign direct investments covered more than 80 % of the current account deficit in 2000. In the first half of 2001, 63% of the deficit was covered by foreign direct investments.

The central bank has conducted a successful monetary policy. The anchor of monetary policy continues to be the pegging of the Lat to the SDR. The peg has fulfilled its main goal, to ensure price stability. Low and stable inflation, and a financial account surplus allowed the central bank to relax monetary policy somewhat, leading to a fall in short-term interest rates of approximately 2 percentage points, between 1999 and 2000. The relaxation of monetary policy was supported by tight fiscal policy aimed at reducing both the current account deficit and the budget deficit.

Market forces determine the prices of a majority of goods and services. Only prices for the services of natural monopolies are regulated (e.g. electricity, gas, water and telephone services), and these constitute 22% of the CPI basket. A cost-recovery mechanism has been established. Trade in goods has been liberalised and fully complies with WTO standards.

¹⁶ Two figures are given for the government balance. One is based on the most commonly used national concept, and the other is calculated according to the European System of Accounts (ESA 95), which was reported by the candidate countries for the first time this year.

The share of the private sector has been stable during 2000. It accounts for 67 % of GDP, and for 71 % of total employment. Enterprise privatisation is close to completion. Some large enterprises are still to be privatised, a task that has proved difficult to fulfil in some cases. Parliament decided last year that Latvenergo should not be privatised for the moment, but has initiated a restructuring of the company so as to prepare it for later privatisation. The preparations for the sale of the Latvian Shipping Company were well advanced, when the process came to a halt in May 2001, as none of the potential bidders submitted the required security deposit. The authorities are working on strategies for a new attempt to sell it. The sale of Lattelekom is suspended, awaiting the settlement of an arbitration case concerning the curtailing of Lattelekom's monopoly mandated by the WTO. A stake in the Latvian Gas company was sold during the summer, and the remaining stake is expected to be sold later this year.

No significant barriers to market entry or exit are present, although some problems still remain. In 2000, 8048 enterprises were registered, and 2552 were liquidated out of a total number of 121922. During the first half of 2001, some 4300 enterprises were registered, and around 1300 were liquidated. Licences are required in 57 sectors, but to obtain such does not seem to present an obstacle. The enterprise register is functioning well. There are still problems with construction permits, land acquisition and work permits for foreigners. An ongoing dialogue is being held between the government and the business sector, represented by the Foreign Investors' Council in Latvia, with the aim to identify barriers and drawbacks in the business environment, and of finding convenient solutions. Customs procedures have improved.

Privatisation of land is ongoing, and a land market has begun to work. 42.8% of total land and 60.1% of non-agricultural land were in private ownership as of January 2001. In order to speed the process of privatisation of land, resources have been redistributed, and the regulations for privatisation of land have been simplified. The Real Estate Cadastre is functioning, and with 589 000 land properties registered, 98 % of land registration is completed¹⁷. The National Computerised Land Book became operational by July 2001, providing a central register and data transfer system¹⁸. By June 527137 units were registered in the Land Book. However, there is widespread dissatisfaction as regards the lengthy process of registration in the Land Book.

The legal framework for enterprises is broadly in place. By spring 2000, the new Commercial Code had been adopted, streamlining the administrative procedures and simplifying business registration. However, the entry into force of the law has been postponed several times, and according to the latest decision, it will become effective as from January 2002. A new regulatory agency for public utilities, the Public Services Regulation Commission, has been set up. The regulator is responsible for public utilities, including telecommunications, postal services, railway transportation and the energy sector (except district heating).

The restructuring of the Latvian banking sector is well advanced. The sector consists of 22 commercial banks. The government holds shares in only 2 banks (100 % of the Mortgage & Land Bank, and 32.1 % of the Savings bank), accounting for 3.7 % of total capital. Non-residents hold 66.5 % of total share capital in the banking sector. The concentration remains

¹⁷ The Real Estate Cadastre contains information about ownership, land use, buildings, and value.

¹⁸ The Land Book defines ownership of a property, it records encumbrances and changes to property ownership, and it contains information about ownership, mortgages, easements and other servitudes, etc.

largely the same as last year, with 5 banks having 64 % of total assets, and the two largest having 37 %. The large amount of banks seems to indicate that some further consolidation could be expected.

Financial intermediation is increasing rapidly albeit from very low levels. In 2000, the volume of credits increased by 27.8 %, and this development continued into 2001 at an accelerating speed. Lending to domestic enterprises and private persons amounted to 21 % of GDP in 2000, up 4 percentage points compared to 1999. A system of mortgage lending is fully operational in Latvia, and it developed rapidly during 2000.

The stock market is improving, but it still suffers from its small size. The legal base for the development of the stock market is in place, and the necessary institutions have been created. The stock market is still, however, at a very early stage of development. The government is promoting this development by selling shares in state enterprises on the stock market and issuing medium-term government bonds in excess of its financing needs. After a year of very low activity, both the stock market and the bond market turnover in 2000 multiplied several times. In January 2001, a united Baltic list comprising stocks of the largest companies listed on the Riga Stock Exchange, Tallinn Stock Exchange, and Lithuanian National Stock Exchange was established. Stock market capitalisation at the end of 2000 was 8.0 % of GDP, 2.1 percentage point more than in 1999. Bond market capitalisation was 6.6 % of GDP at the end 2000.

The average short-term interest rate spread between loans and deposits fell in 2000 compared to 1999. However, during the second half of 2000, short-term interest rates on loans jumped, leaving the interest rates on deposits unchanged, and they are only slowly coming down. The spread between long-term interests rates on loans and deposits fell during 1999 and the beginning of 2000, but since then they have remained at the same level, around 3 percentage points. This fairly low spread reflects a basically efficient banking sector, with a sufficient degree of competition. Nevertheless, the spread between short-term interest rates indicates that some further improvement is possible.

The financial sector has reached an adequate degree of stability. In 2000 nearly all banks showed profits. Total net profits in 2000 were approximately 38 million lats, 20 million more than in 1999. The capital adequacy ratio was 14 % at the end of 2000 and 15 % at the end of March 2001, well above the 10 % required by domestic regulation. The amount of bad loans declined, despite the rapid increase in lending last year. At the end of 1999, the share of bad loans amounted to 6.2 %, at the end of 2000 to 4.6 %, and at the end of the first quarter of 2001 to 4.4 %. A unified supervisory institution for the whole financial sector became operational from July 2001. Previously, the central bank was responsible for the supervision of banks. However, since the new body is only starting its operations, due attention should be paid to a smooth transfer of responsibilities, to securing its independence and to ensuring the quality of its supervision activities.

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

The ability to fulfil this criterion depends on the existence of market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to

improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

The existence of a market economy, with sufficient macroeconomic stability and progress on structural reforms, has established a favourable environment for economic growth and competitiveness. On the whole, economic policy has been conducted with a sufficient degree of predictability to allow proper decision making by economic agents. Macroeconomic stability has improved but sustainability must be secured. The Latvian economy has showed resistance against external shocks, as proved by its reorientation of exports after the Russian crisis. Public finance has improved, but, taking into account forthcoming investment needs, fiscal consolidation is likely to remain a challenge.

The average educational attainment in Latvia is relatively high. In 2000, 19% of the labour force had higher education, a relatively high 62% had second-level, and 18% only basic education. However, the majority of second-level qualifications are vocational; in many cases these vocational qualifications, gained in the past, are over-specialised and not adapted to current and future patterns of skill demand in the economy. The higher unemployment rate among people with low or no education, compared to people with higher education, calls for retraining and additional education. The need to restructure the agricultural sector also calls for further retraining and additional education. More resources for the educational system are one of the few priorities in the budget.

To address the high unemployment, the transition from passive to active labour market measures is emphasised. In 2000 the first National Employment Plan was adopted, and it was updated in mid 2001. The plan had been drawn up in co-operation with the social partners. An important element in the plan is the improvement of the vocational education. Another step towards a better matching of labour supply and demand is the computerisation of the State Employment Service. However, it is not clear from the Plan that adequate resources are being provided to implement these more active objectives.

Gross fixed investment accounted for approximately 25 % of GDP in 2000. Private investment constituted 22.3%, and public investment 2.3%. In order to promote further investment, Latvia has introduced a tax credit up to 40 % of the amount invested in production equipment, technology and real estate, effective from January 2001. Except last year, public investment has increased steadily, by 26 % annually on average during 1996-1999. Last year public investment declined slightly in an effort to reduce the deficit. However, according to the last budget, public investment is expected to increase again, by some 15.5 % in 2001. Among the favoured areas are transport, energy, and environment. In the transport sector, the investments include improvements of the motorways and port infrastructure.

Latvia has succeeded in attracting foreign direct investment (FDI) despite the recent slowdown in the privatisation process. Over the last three years FDI has amounted to 5–6 % of GDP. A large share of total FDI has been directed at the financial sector, partly explaining the rapid restructuring of the sector.

Small and medium-sized enterprises (SME) play a very important role in the Latvian economy. They generate more than 50 % of GDP, and they employ more than 70 % of the workforce. The government has committed itself to supporting SME development. The state guarantee programme approved by the government in 1999 has contributed to increasing significantly the availability of finance for SMEs, including for companies in the early stages of development.

Government involvement in the private sector is moderate. Latvia is conducting a liberal foreign trade policy, aimed at finding new markets and enlarging the market share of existing markets. In February 1999 Latvia became a member of WTO. The policy implemented has resulted in a substantial decline in tariff barriers. State support to the industrial sector is mainly given in terms of capitalisation of tax debt. SMEs are offered favourable loans through the Mortgage and Land Bank, and small companies with under 25 employees may benefit from tax exemptions. To help domestic companies to find new export markets, they have some of their costs related to international exhibitions and fairs, and international marketing covered. Tax exemptions are also given to certain high technology manufacturers and for certain large-scale investments. Subsidies are given to the agricultural sector and represent about 3% of the central government basic budget (which excludes mainly social security).

The Latvian economy is a highly open economy. The GDP share of total exports and imports was 100.3 % in 2000, up 2.4 percentage points from 1999. During the last year Latvia has seen a sharp rise in exports to countries with which trade had previously been very small, like Japan, Canada, and some countries in Africa.

Trade integration with the EU is continuously increasing. Exports of goods to the EU, as a share of total exports have become larger. In 2000 they accounted for 64.6 %, about 4.5 percentage points more than in 1999. Imports have developed slightly differently. Over time, imports from the EU as a share of total imports have risen, but the share declined in both 1999 and 2000. Latvian exports suffered from a real exchange rate appreciation against the euro by 10.6 % in 2000. This may explain why the Latvian market share in the EU decreased somewhat.

The structure of Latvian trade is changing. Wood and wood articles still constitute the backbone of Latvian exports. However, the goods whose export increased most were machinery, equipment, and prepared foodstuffs. Even within wood and wood articles industry there has been a change towards goods with a higher added value. Imports are dominated by machinery and electrical equipment. But the strongest growth was reported in live animals and animal products, vegetable products, metals and metal articles.

2.4. General evaluation¹⁹

Latvia is a functioning market economy. Provided that it makes further substantial efforts in maintaining the pace of, and completing, its structural reforms, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

¹⁹ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

Latvia has preserved macroeconomic stability. Further progress has been made on structural reform, the last steps of the pension reform, a new framework for financial supervision and a new regulatory authority for public utilities have been introduced. The legislative framework for a market economy is, for the most part, in place, and market entry and exit mechanisms continue function in a satisfactory manner. The financial sector, although small, is gradually consolidating.

However, the authorities must continue a policy of fiscal discipline, within a medium term fiscal framework, in order to keep the budget deficit and the current account deficit sustainable over the medium term. Privatisation of the remaining large enterprises has advanced more slowly than anticipated and should be completed. The privatisation of land and the development of the land market should be advanced. Measures to improve the business environment have been introduced, and this process should continue, in particular through the removal of the remaining regulatory and administrative constraints to enterprise development. Unemployment remains at high levels and labour market flexibility should be enhanced.

3. Ability to assume the obligations of membership

Introduction

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

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

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

In the 2000 Regular Report, the Commission concluded that :

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

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

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

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

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

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

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

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

3.1. The chapters of the *acquis*

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

Chapter 1: Free movement of goods

Since the last Regular Report, Latvia has made very good progress in aligning its legislation with the *acquis* and in strengthening the relevant administrative capacities.

In the area of **horizontal and procedural measures**, progress in establishing or upgrading the general framework for the *New and Global Approach principles* remained steady. As concerns Conformity Assessment, the relevant legislative framework was already in place. In the field of standardisation, Latvia accelerated the adoption of European standards. By the end of September 2001, the Latvian standardisation body had adopted 5,440 standards, including 360 international standards and 4,842 European standards, as well as 238 Latvian standards. Latvia has transposed 4,527 CEN standards, representing 64.72% of the total existing CEN standards, 248 CENELEC standards, representing 7.12% of the total and 67 ETSI standards, representing 3.66% of the total. No significant progress can be reported on safety checks at borders. Since October 2000, Latvia participates in the Interchange of Data (IDA) between EU administrations, and its legislation is already in line with the *acquis*.

Progress can also be reported on the adoption of **sector specific legislation**. Latvia continued the transposition of sectoral directives. In the areas covered by *New Approach Directives*, the legal and administrative frameworks on electrical equipment in explosive atmospheres, toys, machinery, lifting and mechanical handling equipment, personal protective equipment and pressure vessels, have already established a considerable degree of alignment with the *acquis*. Since the last Regular Report, progress was made in the implementation of the *acquis* on electromagnetic compatibility, medical devices, appliances burning gas and construction products. Amendments to the regulation of May 2000 on the electromagnetic compatibility of apparatus were adopted in February 2001. The regulation on the procedure of realisation, distribution and registration of medical devices and goods was adopted in March 2001. The regulations on appliances burning gas and on the procedure of conformity attestation of construction products in the regulated area were adopted in April 2001. In the area of metrology, further progress has been made in aligning with the *acquis* through the adoption, in May 2001, of regulations on metrological requirements for packed goods and the procedure for their metrological control, metrological requirements for bottles used as volume indicators and the procedure for their metrological control and the standard value of the nominal quality of packed goods and the nominal volume of packing. Since the last Regular Report there has,

however, been no significant progress in the field of telecommunication and satellite equipment and recreational craft.

As regards sectors covered by *Old Approach Directives*, the legal and administrative frameworks on drug precursors, glass, textiles, footwear and wood were already in place. Progress has been made in the implementation of the *acquis* on motor vehicles, chemicals, detergents, pharmaceuticals, cosmetics as well as foodstuffs. The regulation on conformity assessment of wheeled vehicles and their components was adopted in December 2000 replacing the regulation of March 1999. In the field of chemicals, amendments to the Law on Chemical Substances and Chemical Products were adopted in December 2000. Regarding detergents, a regulation on essential requirements for washing and cleaning means and special restrictions and limitations on operations with them was adopted in May 2001. However, since the last Regular Report, there has been no significant progress with regard to fertilisers and explosives for civilian use. Furthermore, some regulations were adopted since the last Regular Report to transpose the *acquis* in the area of pharmaceuticals, regulations on manufacturing of medicinal products (in December 2000), on advertising of medicinal products (in January 2001), on import, export and distribution of medicinal products (in February 2001), on pharmaceutical activities and on classification of medicinal products for human use (in March 2001). The Law on Veterinary Medicine was adopted in April 2001. Regarding cosmetics, a Regulation on the Safety of Cosmetics was adopted in June 2001. As concerns food safety, Latvia transposed parts of the *acquis* on additives, processing aids, food contact materials and food for particular nutritional uses during the first half of 2001 (*see Chapter 7 – Agriculture*).

There have been no new developments on the transposition of the *acquis* on firearms and cultural goods.

As concerns the development of Latvia's administrative capacity for the implementation of horizontal and procedural measures and sector specific legislation, further progress has been made in strengthening the necessary framework institutions, in particular in accreditation and standardisation, with regard to ensuring their independence and the quality of their functioning. Concrete steps to reform the market surveillance system have been taken. In December 2000, the Market Surveillance Council was established according to the Product and Services Safety Law which entered into force in July 2000. Its main tasks are to ensure effective co-operation between market surveillance authorities and to create a uniform approach to the market surveillance of all sectors, taking into account consumer and industry interests. As concerns food safety, the government agreed in April 2001 to establish a single control body, the Joint Food Supervision Service, encompassing the whole food chain and merging the state veterinary service, the state sanitary inspection and the other involved bodies so as to cover the whole food chain. The Ministry of Welfare will remain responsible for the overall food safety requirements, whereas the Ministry of Agriculture will be responsible for legislative initiatives in hygiene and specific requirements in the whole food chain.

Since the last Regular Report, no new developments have taken place as regards the **non-harmonised sector** and in particular the implementation of the principle of mutual recognition and the identification of potential obstacles to Articles 28-30 of the EC Treaty.

Some progress can be reported in the field of **public procurement**. In the first half of 2001, Latvia continued efforts towards alignment. In July 2001, the Law on Procurement for Government and Municipal Needs was adopted, which is scheduled to enter into force in

January 2002, and replaces the Law on Government and Municipal Procurement. The principal differences lie in the definition of public procurement. It also introduces new review procedures. The new Law is harmonised with the Law on Works, Supplies, Lease and Services Procured by Entities Operating in the Public Utilities Sector which was adopted in November 1999. It also foresees the creation of a Public Procurement Surveillance Bureau and clarifies the tasks and the procedures of the Bureau.

Overall assessment

On the whole, Latvia has already transposed a significant part of the *acquis* in this area and advancement in the transposition remains steady. The main challenge remains to upgrade the quality of the existing legislation in order to assure a high quality transposition of the *acquis* and to strengthen the administrative capacity.

The transposition of the general framework is almost completed. The Law on Conformity Assessment which defines the overall conformity assessment system, was completed by the adoption of two implementing regulations respectively in April and May 2000 incorporating the EC regulations on conformity assessment procedures. The legal framework on standardisation has been in place since 1998. The good pace of adoption of European standards needs to be maintained. There is sustained development of the standardisation system in Latvia. The need for a market surveillance reform in Latvia has been recognised and steps have been taken in this direction, but the process needs to continue. The Product and Services Safety Law, adopted in November 2000, constitutes the basis for the reform of the market surveillance authorities. The scope of metrology has been regulated since 1997. Regarding notification procedures, according to an Order of 1997, the Latvian Standards body acts as the WTO/TBT enquiry point and is also responsible for the co-ordination of the exchange of information in the areas of technical barriers to trade and sanitary and phytosanitary measures in the context of the *acquis*.

A large part of the sector specific *acquis* is also in place. The transposition of the New Approach directives has progressed considerably and for the remaining sectors such as aerosols, gas appliance, radio and telecommunications terminal equipment and recreational crafts, the transposition is underway. The transposition of the Old Approach legislation is progressing steadily. Attention needs to be paid to the renewal of existing marketing authorisations for pharmaceuticals. As regards food legislation, Latvia is also fairly advanced in transposition, but the process needs to be completed. It now has to make further efforts to ensure enforcement of the transposed legislation.

As for the administrative capacity in this domain, the Latvian accreditation and standardisation bodies have been in place for years and the Latvian authorities continue to strengthen their administrative capacity. However, this process needs to continue. The Accreditation Council, together with the Latvian National Accreditation Bureau and the Technical Committees, constitute the accreditation system. In accordance with legislation adopted, they harmonise their activities, procedures and performance with the practice and requirements of the EC. By May 2001, the Latvian National Accreditation Bureau had accredited 126 testing laboratories, 1 personnel certification body, 3 product certification institutions, 5 calibration laboratories, 6 inspectorates and 1 quality system certification body. The Latvian National Accreditation Bureau is a full member of the European Co-operation for Accreditation since June 1999. An assessment according to the European Co-operation for Accreditation requirements is ongoing

in order to make it possible to sign Mutual Recognition Agreements between the Bureau and other European Co-operation for Accreditation members at the end 2001, as scheduled.

The Latvian National Metrology Centre is in charge of the implementation of metrology policy in Latvia. In June 2001 the Centre employed 170 persons, of whom 67 were employed in regional metrology centres. In this field progress continues to be slow and metrology remains an area of weakness. The absence of sufficient national budget allocations has meant that national metrology is inadequately equipped and trained.

In the field of market surveillance, the reform needs to be completed. The establishment of the Market Surveillance Council, in December 2000, already represents an important step in this direction. It will ensure co-ordination between the different market surveillance authorities. Currently, the Consumer Rights Protection Centre is responsible for the surveillance of almost all non-food products for which specific requirements exist - electrical products, construction materials, and toys. In 2001, the administrative capacity of the Centre was strengthened. Its staff was increased by 10 employees. Besides the Consumers Rights Protection Centre in Latvia, there are several state institutions involved in market surveillance activities.

As regards sector specific legislation, Latvia has to make further efforts to reinforce administrative capacity, in particular in the food area. The setting-up of the common control body is a first step in this direction. The network of laboratories must also be streamlined and upgraded where necessary.

For the non-harmonised sector, the screening of existing legislation has just started with a view to eliminating trade obstacles. A number of obstacles, including certain licenses, have been identified so far, but a clear strategy for their elimination has not yet been developed. The administrative structures and notification procedures need to be strengthened in order to comply with the requirements of the *acquis*. The administrative arrangements for future monitoring in this area need to be completed. The Ministry of the Economy is responsible for the follow-up and implementation of Articles 28-30 of the EC Treaty.

As regards cultural goods, alignment still needs to be completed. As regards safety checks on products at external borders, Latvia still needs to strengthen customs and market surveillance infrastructure as well as effective administrative co-operation between competent authorities.

In the area of public procurement, there are still a number of points on which the Latvian legislation deviates from the *acquis*, including the transposition of the negotiated procedure and the conditions under which it can be used. The scope of the Law on Utilities does not cover certain types of entities and sectors, as well as some activities. The administrative structures responsible for the implementation of public procurement should be developed. The Procurement Supervision Bureau has still not been set up. Its establishment, scheduled by the Law on Works, Supplies, Lease, and Services Procured by Entities Operating in the Public Utilities Sector, is expected to enhance supervisory capacity and transparency in the field of public procurement.

Chapter 2: Free movement of persons

During the last year, Latvia made progress in aligning with the *acquis* on mutual recognition of professional qualifications, and steps to strengthen the administrative capacity have been taken.

In the area of **mutual recognition of professional qualifications**, Latvia adopted a Law on Regulated Professions and Recognition of Professional Qualifications in June 2001, with a view to aligning its legislation with the general system as well as with the sectoral directives. Further steps to clarify the administrative structures with responsibility in this field have also been taken. The Academic Information Centre, which presently carries out the recognition of professional qualifications, will continue to be responsible for this area.

As regards the preparation of national legislation on **citizens' rights**, no progress can be reported.

No particular developments can be reported in the area of **free movement of workers**, although preparations have continued to facilitate Latvia's participation in European Employment Services (EURES).

Latvia has continued to implement bilateral agreements with a view to the future **co-ordination of social security systems** and the development of institutional capacity has continued.

Overall assessment

Overall, Latvia has already advanced in the area of mutual recognition of professional qualifications, whereas in the areas of citizens' rights, the free movement of workers and co-ordination of social security systems important further efforts will be necessary.

Framework legislation in the area of mutual recognition of professional qualifications is in place. Further legislative work is however necessary, in the form of the adoption of implementing regulations. In addition, further amendments are still necessary to achieve alignment with several sectoral directives, including for veterinarians, lawyers, architects, doctors, dentists, nurses, midwives and pharmacists, in order to reach full harmonisation. With respect to professional qualifications obtained before harmonisation, Latvia should introduce measures to ensure that all its professionals can, as of accession, meet the requirements laid down by the directives. The administrative structures and institutions involved in the field of mutual recognition of professional qualifications will also need to be considerably strengthened.

While preparatory work has already taken place, these efforts will need to be maintained to ensure full alignment. It will need to be ensured that, by accession, there are no provisions in Latvian legislation which contradict Community rules, in particular with respect to nationality, residence or language requirements. Legislation on mutual recognition needs to be monitored to ensure that it distinguishes between academic and professional recognition and includes simpler procedures to allow the provision of services.

Concerning citizens' rights, legislation on voting rights needs to be adopted. Moreover, implementation will also require certain changes to Latvia's Constitution.

In the area of the free movement of workers, legislation is only partially aligned and efforts are required to ensure complete alignment, including also the social and cultural integration of migrant workers and their families. As regards future participation in the EURES network, efforts should be maintained to strengthen public employment services, especially with regard to language training.

With a view to the future co-ordination of social security systems, further work to develop the necessary administrative structures is needed. The institutional capacity needs to be strengthened so as to enable Latvia to apply the *acquis* on the co-ordination of social security. The implementation of several bilateral agreements on social security will facilitate Latvia's compliance with the *acquis*, as they normally rely on the same principles as the social security co-ordination Regulations and will thus familiarise the administration with these procedures.

The Language Law and its implementing regulations foresee certain linguistic requirements in areas relating to this chapter; for example, there is a list of professions and positions for which certain levels of language proficiency are required. It will be important to ensure that this legislation is implemented in full respect of the principle of proportionality.

Chapter 3: Freedom to provide services

Since last year's Regular Report, Latvia has made some progress regarding alignment, including in the area of financial services. Some steps were taken to enhance administrative capacity, and the Financial and Capital Market Commission became operational.

In the field of **the freedom of establishment and the freedom to provide** services (other than financial services) there have been no significant legislative or administrative developments since last year.

In the field of **financial services**, the new integrated supervisory body, the Financial and Capital Market Commission, started operations in July 2001.

Regarding the *banking sector*, the Bank of Latvia approved a number of regulations to further align the regulatory framework for banking activities with the EC banking directives and the Basel Core Principles for Effective Banking Supervision as well as the standards for the calculation of capital adequacy with respect to credit institutions. A new law on Savings and Loan Companies was adopted. As regards *administrative capacity*, the staff of the credit institution supervision department (now 50 persons) has been increased in order to strengthen on-site examination and analysis of internal control.

Concerning the *insurance sector*, Latvia has continued to adopt regulations on the gradual liberalisation of investments abroad made by insurance companies. Concerning alignment relating to insurance against civil liability in respect of motor vehicles, Latvia increased its liability limits in January 2001.

As regards insurance supervision, the Latvian Insurance Supervision Inspectorate has issued binding instructions with a view to further liberalising the establishment of foreign insurance companies in Latvia and their supervision. However, no legislative amendments to this end were adopted. As regards *administrative capacity*, the 21 employees of the Insurance Supervision Inspectorate have increased the number of audits and checks they presently carry out. In addition, a number of binding instructions for insurers were issued.

With regard to *investment services and securities markets*, Latvia has continued its alignment process. In July 2001, amendments to the Law on Securities entered into force, adjusting the Law in relation to the establishment of the Financial and Capital Market Commission.

The Securities Market Commission (SMC), which used to be the supervisory body for security markets now forms part of the new supervisory body. 22 employees work in the four departments of the Commission. The SMC increased the number of checks carried out in 2000 to ensure compliance with the requirements of the legislation on securities and issued regulations on the registration of foreign brokerage companies, as well as on the capital adequacy of brokerage companies, which became effective in July 2001. During 2000, authorised officials of the SMC conducted 28 on-the-spot checks in intermediary companies, including examinations performed in branch offices of five licensed intermediaries (in total, 17 branch offices in all of Latvia were inspected). Along with the inspections, the SMC has also performed analyses of financial statements and other documents submitted by intermediaries, assessing their compliance with normative acts governing the securities market.

The most important development in the field of financial services was the start of operations by the Financial and Capital Market Commission in July 2001. According to the law, the Commission is an autonomous state institution. It will take over the supervision responsibilities of the existing market supervision authorities, such as the Bank of Latvia, the Securities Market Commission and the Insurance Supervision Inspectorate. The Commission employs 97 persons.

Concerning the **protection of personal data and the free movement of such data**, progress was made as regards the establishment of the State Data Inspectorate, which started its operations in January 2001. However, further improvements are necessary as regards the legislative basis, as well as the independence and functioning of the new body (*see also Chapter 24 – Justice and Home Affairs*).

As regards **information society directives**, Latvia made only limited progress by approving a concept on e-commerce in March 2001.

Overall assessment

Overall, Latvia has advanced with the transposition of the *acquis*, although further legislative alignment is needed. Most of the necessary institutions are in place, but some further adjustments and strengthening will be necessary.

In the field of the freedom of establishment and freedom to provide services, there are still provisions in the law on foreign investments leading to discriminatory effects against foreign nationals. Restrictive provisions exist, such as the requirement of Latvian nationality or linguistic requirements, in the context of establishing an entrepreneurial activity or where licenses are required, as for gambling, lotteries, mining and security services.

Latvia needs to gradually abolish all these restrictive measures. The entry into force of the Commercial Code, which has been delayed until January 2002, is intended to eliminate all these restrictions. The Language Law and its implementing regulations foresee certain linguistic requirements in this area, for example, as concerns the creation, spelling, and usage of names. It is important to ensure that this legislation is implemented in full respect of the principle of proportionality.

Concerning financial services, Latvian legislation already contains most of the *acquis* requirements, but amendments still need to be made.

On *banking*, the rules, policies and practices to be applied by the new competent supervisory authority are similar to the Recommendations of the Basle Committee on Banking supervision and to EC provisions. There is also good co-operation with foreign supervisory bodies. Latvia has to ensure in particular that the minimum requirements concerning the deposit guarantee scheme are gradually achieved.

Supervision of credit institutions has to date been carried out by the Credit Institutions' Supervision Department of the Bank of Latvia. At present, the 50 staff members are engaged in both on-site examinations and off-site analysis. According to the Law on Credit Institutions, on-site examinations must be carried out at least once a year. 47 on-site examinations were conducted in 2000, focusing on assessment of borrowers' financial standing and solvency, as well as enhancement of internal control systems to provide for prudent management of traditional and new risks. The competent Division in the supervisory body appears to be well staffed with qualified personnel.

As regards the *insurance sector*, the basic features of the EC supervisory system are covered by the current legislation. However, some of the Latvian prudential provisions are still different from those contained in the *acquis*, in particular concerning reinsurance as well as insurance against civil liability in respect of the use of motor vehicles, including the structure of liability and the minimum level of third-party cover. In addition, further alignment is needed as regards accounting rules.

Concerning administrative capacity, the Insurance Supervision Inspectorate (ISI), now under the new supervisory body, can give binding instructions to the insurer concerning tariff policy, investment structure, profit distribution, reinsurance arrangement and transfer of all or part of the insurance portfolio to another insurer (this can be done only for prudential reasons). However, tariff policy has to be liberalised before accession. The ISI has 21 staff, and in 2000 the Insurance Supervision Inspectorate performed 7 audits and 76 thematic checks in insurance companies and pension funds. The implementation capacity of the service has been enhanced through further computerisation of the service, and by further training of its staff.

In the field of *investment services and securities markets*, there is still a need to ensure the gradual fulfilment of the minimum requirements under the investor compensation scheme in order to align with the *acquis*. Shortcomings in the transposition of other securities legislation might also have to be corrected.

Overall, the standard of supervision in the financial services sector in Latvia has been quite satisfactory. The transfer of powers to the new supervisory body, the Financial and Capital Market Commission, is not expected to disrupt the supervision process while strengthening co-ordination. Full financial independence will gradually be achieved by 2007. Latvia should pay due attention to the smooth transfer of responsibilities, securing its independence and ensuring that the quality of its supervision activities during this initial phase does not fall below standard.

In the field of the *protection of personal data and the free movement of such data*, legislative amendments are necessary in order to ensure full alignment with the *acquis*. The independence of the national supervisory authority for data protection, the State Data Inspectorate, will have to be ensured. Particular attention should be paid to changing the procedure for appointing the head of this body.

In the field of *Information Society Services*, Latvia is only beginning to prepare legislation. The administrative infrastructure still needs to be established, and human resources necessary for the effective implementation and enforcement of the information society Directives allocated.

Chapter 4: Free movement of capital

Latvia made some further progress during the last year, in particular concerning the further liberalisation of capital movements and cross-border credit transfers.

As regards **capital movement and payments**, in December 2000, Latvia adopted amendments to the Law on Security Services, which entered into force in July 2001, eliminating the restrictions for EU investors by granting national treatment for the ownership of security companies.

With respect to the four guarantee funds, Latvia adopted amendments to the Law on Natural Person Deposit Guarantees with a view to abolishing the restrictions related to the cross-border investment policy covering resources of the Deposit Guarantee Fund. Since July 2001, investment policies for the management of this fund and the Insured Protection Fund are being determined by the newly established Financial and Capital Market Commission which will ensure liberalisation of investment rules (*see also Chapter 3 - Free Movement of Services*).

As for the *acquis* relating to the regime of direct taxation, Latvia adopted a decision under which, from January 2003, the existing differentiation in the imposition of income taxes on dividends received from resident versus non-resident companies will be removed.

As regards **payment systems**, the Bank of Latvia issued amendments to the legislation on Credit Transfers which entered into force in January 2001 to further align with the *acquis* on cross-border credit transfers. In September 2001, the Bank of Latvia adopted recommendations for transactions effected by means of electronic payments to implement the Commission's recommendations.

As for the *acquis* on **the prevention of the use of the financial system for the purpose of money laundering**, the number of reports received by the Office for the Prevention of Money Laundering increased to 4014 in 2000 (from 1111 in 1999), and the Office now has access to 350 databases; however no adequate increase in the resources of the Office has taken place. In June 2001, a special unit for the investigation of money laundering was established in the Board of the Finance Police of the State Revenue Service.

Overall assessment

Overall, Latvia has advanced well with the alignment with the *acquis*, but the process nevertheless still needs to be completed as regards capital movements and payments.

The liberalisation of capital flows has largely been accomplished. However, a number of restrictions on capital movements nevertheless remain. With regard to the acquisition of real estate, Latvia still has to adopt legislation in order to end the restrictions concerning acquisition of land by foreign natural persons. Further alignment is also necessary to reach full compliance with respect to the four guarantee funds, as well as the Law on Collective Investment Undertakings. As regards investments in foreign assets by supplementary pension funds and

insurance companies, further alignment of the laws on private pension funds with the *acquis* is necessary. Further liberalisation is also required regarding restrictions still in force in privatisation legislation and practice, purchase agreements and bilateral agreements as well as complete alignment regarding the taxation of companies' dividends. According to the amended Law on Security Services, managers of security companies must meet the requirements of the Language Law.

Latvia's legislation on cross border credit transfers and on settlement finality is now partially in line with the *acquis*. Further efforts are, however, required to complete alignment and to ensure the efficient functioning of payments systems, including the introduction of adequate and effective redress procedures for the settlement of disputes between banks and customers on cross-border credit transfers.

The Bank of Latvia regulates and supervises credit and financial institutions, operates exchange controls and oversees the payment system. The Bank is deemed to have appropriate competence and capacity to administer the liberalisation scheme and to initiate the flanking policies needed to fully implement a regime of free capital movements.

Regarding money laundering, Latvia's legislation is generally in line with the *acquis*. However, a few amendments to its law on prevention of laundering of proceeds derived from criminal activity, as well as to the guidelines for developing procedures for identifying suspicious financial transactions are still necessary.

Latvia has a separate Financial Intelligence Unit (the Office for the Prevention of Money Laundering), which employs only 13 persons, including 5 financial transaction analysts. Out of the 4014 reports received in 2000, only 40 were forwarded to the Prosecutor's General Office and less than 30 criminal cases were initiated, with no convictions up to now. In addition to the necessary reinforcement of its administrative capacity, improved co-operation with the law enforcement bodies, and notably the police, as well as a more effective prosecution of cases being reported remain a priority.

Compliance with the Recommendations of the Financial Action Task Force should be ensured.

Chapter 5: Company law

Since last year's Regular Report, while Latvia has made only little progress as regards the area of company law, alignment advanced in the area of accounting. As concerns the protection of intellectual property rights, a strategic document was adopted and some steps were taken to strengthen the administrative capacity.

Regarding **company law**, the implementation of the Commercial Code of April 2000 has been postponed and it is now planned for January 2002. Progress has been made in respect of the State Enterprise Register, which is now fully computerised.

As regards *accounting law*, Latvia made some progress in the implementation of the EC accounting and auditing Directives by adopting the Law on Sworn Auditors in May 2001, which transposes the 8th Directive and which will enter into force in January 2002. The law regulates the legal basis for the professional operation of sworn auditors.

In order to facilitate implementation of the 4th company directive requirements, amendments to the Law on Annual Accounts of Enterprises entered into force in April 2001. The process of implementing International Accounting Standards is continuing.

A Manual on Preparation of Consolidated Annual Accounts was prepared in 2000, thereby facilitating practical implementation of consolidation requirements in the field of accounting.

In the field of **industrial property rights**, where legislation broadly corresponds to the *acquis*, there are no specific developments to report. Latvia has also received an invitation to join the European Patent Convention.

As compared to the previous year, there has been an increase in the number of trademarks registered by the Patent Office, as well as in the number of patents granted.

Regarding **intellectual property rights**, a Strategic Development Programme on Development and Protection of Intellectual Property for the period 2001-2005 was adopted in August 2001. It was followed up by specific action plans developed by the Latvian Patent Office and the Ministry of Culture. In September 2001, legislation concerning measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods was adopted with a view to aligning to the *acquis*.

The Copyright and Neighbouring Rights Division carried out training activities and prepared amendments to the Criminal Law, the Administrative Procedures Code and the Law on Customs that would facilitate the procedures for fighting piracy. During the last year, an increase in the seizure of pirated CDs, videotapes and software was observed, and resulted in an increase in the number of cases prosecuted.

The implementation capacity at the border and in the judiciary has been somewhat strengthened, and training for staff of the law enforcement bodies and the judiciary has been carried out (*see also Chapter 24 – Co-operation in the field of justice and home affairs and Chapter 25 – Customs union*). The Establishment of the Intellectual Property Supervision and Co-ordination Council as a co-ordinating institution facilitating co-operation among state institutions, municipalities and NGOs dealing with the issues of intellectual property rights protection has started. At the regional level, customs officers were appointed to each of the 5 regional anti-smuggling divisions to strengthen the enforcement of intellectual property rights. Furthermore, at each customs point there will be one employee responsible for intellectual property rights protection. Training seminars on intellectual property rights protection issues for customs officers are being held monthly and approximately 50 customs officers have been trained (*see also Chapter 25 – Customs union*).

With respect to the **Regulation replacing the Brussels convention on jurisdiction and enforcement of judgements in civil and commercial matters**, and the **Rome Convention on the law applicable to contractual obligations**, Latvia started the necessary preparatory work for their implementation, especially in relation to the courts, which may be designated for the purpose of the Regulation (*see Chapter 24 – Co-operation in the field of justice and home affairs*).

Overall assessment

Latvia has already largely achieved alignment with the *acquis* in the areas covered by this Chapter, but the implementation and enforcement, and in particular the protection of intellectual and industrial property rights, remains a difficult challenge.

As regards Latvian **company law**, Latvia adopted the Commercial Code in April 2000 with the aim of completing the transposition of the 1st, 2nd, 3rd, 6th, 11th and 12th company law Directives and consolidating a number of provisions contained in different legal acts. The entry into force of the Commercial Code is considered to be one of the most significant legal events and should therefore not be further delayed, despite the amendments to other existing laws (i.e. to tax legislation, the Law on Annual Reports of Companies, the Law on Accounting, the Criminal Law and the Administrative Violations Code) still necessary in order to harmonise them with the Commercial Code. Moreover, the Code itself would also benefit from some further amendments related to the 1st and 11th Company Law Directives, in particular penalties for non-disclosure, and the 12th Directive, in particular contracts between the sole entrepreneur and the company.

The institution responsible for the implementation of the Commercial Code is the State Enterprise Register. For the implementation of the Code, the Government has allocated € 720,000 (402,504 LVL) to the State Enterprise Register in order to take into account financing of additional functions foreseen under the law. When the new Commercial Code comes into force, the new computerised information registration system will ensure double-checking, i.e. data entered will be checked by state notaries before confirmation of registration. In general, the number of newly registered enterprises in Latvia is gradually decreasing. In January 2001, the Enterprise Register began simultaneously making an entry into the State Revenue Service register when they registered new companies. Information campaigns on the new Commercial Code are also ongoing.

Concerning *accounting law*, Latvia's legislation is already broadly in line with the *acquis*. The accounting standards-setting body responsible for issuing accounting standards is the Latvian Financial Accounting Standards Committee. Work on the development of Latvian accounting standards, including the legal basis for a co-ordination institution and enforcement mechanism ought to be accelerated.

With regard to administrative capacity in the area of accounting, work on the establishment of the legal basis for a co-ordinating institution regarding accounting standards is ongoing. From January 2002 the Ministry of Finance will carry out the state supervision functions of Latvia's Sworn Auditor Association. The responsible authority for e.g. registration of certified auditors, code of ethics, sanctions is the Ministry of Finance.

In the field of **industrial and intellectual property rights (IPR)**, Latvia's *trademark law* is already to a large extent in line with the *acquis*. However, a number of outstanding points risk causing difficulties in the process of practical implementation of the law, which should therefore be reconsidered. Latvia will have to prepare for further changes to its trade mark legislation. Latvia's Patent law is largely in line with the *acquis*, but also needs further adjustments to fully comply with the EU level of patent protection. Implementation of the legal protection of biotechnological inventions is still to be carried out. Further efforts are necessary to align the

Latvian legislation on industrial property rights with the Directive on copyright in the information society and the resale right Directive.

Enforcement of industrial property rights remains, however, a matter of concern. Latvia should continue to tackle enforcement and the strengthening of its administrative capacity as a high priority.

Latvia acceded to the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations in 1999 and has ratified the two 1996 WIPO Treaties.

In the field of intellectual property rights, further enforcement measures are needed as regards copyright. Concerning the *administrative capacity* in the field of intellectual and industrial property rights, the Copyright and Neighbouring Rights Divisions under the Ministry of Culture (consisting of three persons mainly responsible for policy making and for supervision of the collecting societies) as well as the Latvian Patent Office under the Ministry of Justice are the competent authorities on industrial rights and copyright and neighbouring rights respectively. The recent elaboration of the related action plans are encouraging steps towards further fostering protection of these rights.

Latvia has devoted more attention to efficient enforcement of IPR legislation in particular as regards the fight against piracy and counterfeiting. In this respect, training has taken place for enforcement bodies (Customs, State Police and, particularly, the Judiciary) on EC legislation and/or enforcement methods. However, despite the recent encouraging results, due to various constraints (financial, shortage of staff, lack of equipment and know-how) and the size of the existing problem, enforcement has been lagging behind.

Especially important in the fight against piracy is the strengthening of co-ordination, and particularly of the capacity of the Intellectual Property Rights Division operating under the National Customs Board as well as the reinforcement of training for judges dealing with cases of copyright and neighbouring rights. In addition, criminal proceedings tend to be extremely slow and to date only a few cases have resulted in actual judgements. Training should thus be enhanced and civil prosecution further strengthened.

In Latvia, there are two collective management societies and one association which aims to fight music piracy. The collective management societies are of particular importance in the process of enforcement.

Further efforts are required to strengthen the capacity to enforce legislation in the area of IPR, especially as regards border controls, which should be implemented more efficiently. Also, further attention should be devoted to combating piracy. Improving the effectiveness of the administrative and judicial bodies involved in enforcement, such as the customs services, the police and the judiciary, is also very important, as is the reinforcement of co-ordination between them. Further targeted training is necessary both for copyright officials and for enforcement officials.

With respect to the Regulation replacing the Brussels convention on jurisdiction and enforcement of judgements in civil and commercial matters, and the Rome Convention on the law applicable to contractual obligations, Latvia needs to continue preparations and draw up the necessary legislation.

Chapter 6: Competition policy

Since the last Regular Report, Latvia has continued aligning to the *acquis*, in particular as by adopting a new Competition Law, block exemptions and new legislation on Special Economic Zones. As concerns the enforcement record, further progress has been made in both the anti-trust and state aid fields, and more particularly in the latter.

In the field of **anti-trust**, a new Competition Law was adopted in early October 2001 with a view to further alignment to the *acquis*. Latvia also continued the process of introducing block exemptions for different categories of restrictive agreements. In February 2001, a block exemption for liner shipping companies was adopted.

The *Competition Council* and its executing body, the Competition Bureau, have reasonably broad powers to enforce anti-trust rules. During the last year, a new division was created in the Council to draft internal regulations and methodological guidelines. During the first half of 2001, the number of employees was modestly increased to around 40 persons. During the year 2000, the Competition Council took 20 decisions in the field of antitrust. Its investigations included areas such as food processing, beverages, medicine, other consumer goods, oil and fuel, water supply and heating, and airport and seaport services.

In the area of **state aid**, legislation intended to align Latvia's Special Economic Zones and Free Ports with the *acquis* was adopted in July 2001. These changes together with an amendment to the State aid control legislation of June 2001 also aimed at ensuring the compatibility of aid to the steel sector. Latvia also made a proposal to the Commission in preparation for a regional aid map in January 2001.

The *State Aid Surveillance Commission* and its secretariat appear to be empowered to exercise regular and systematic ex ante control of compatibility of State aid measures. During the last year, they have benefited from training measures, but the Secretariat also saw a cut in its staff from 3 to only 2 persons. During 2000, the Commission issued 12 decisions (compared to 3 in 1999), and 3 were taken during the first half of 2001. Most decisions concerned the capitalisation of tax debts accrued by enterprises before they were privatised.

Overall assessment

The process of legislative alignment is far advanced. Latvia's enforcement record is also developing, although efforts to ensure the effective application of competition rules need to continue.

The new Law on Competition of 2001 contains the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. Latvia has also introduced secondary legislation based on most of the Community's block exemptions. However, some further alignment of the rules is still necessary, including an adaptation of the secondary legislation to the Community's new policies on vertical restraints and horizontal co-operation agreements.

The Latvian Competition Council appears to have a fair enforcement record, but further strengthening, as well as a much more deterrent sanctioning policy, are required. Priority should be given to cases that concern the most serious distortions of competition, and "unfair

competition" cases should not be allowed to divert scarce resources from the antitrust enforcement. To ensure this, the staff of the Competition Council needs to receive further training, as do those members of the judiciary that deal with anti-trust matters. The Competition Council also appears to be in need of increased resources, not least in the field of information technology, in order to ensure full and effective application of the rules.

The State aid control legislation of 1998 contains the basic principles of State aid control. With the adoption of the amendments to the Latvian legislation on Special Economic Zones and Free Ports, an important step has been taken towards alignment with the *acquis*. These changes together with an amendment to the State aid control legislation should also contribute to ensuring the compatibility of aid to the steel sector. Concerning secondary legislation, the Latvian legislation allows for the direct application of the *acquis* through the Europe Agreement. Latvia, therefore, does not need to separately adopt all of the EC's secondary State aid legislation.

State aid reports have been submitted for the years up until 1999, which follow the methodology and the presentation of the European Commission's survey on State aid in the EU and are of good quality. Latvia has also prepared a State aid inventory of aid measures in force in the country. In order to ensure maximum aid intensities in assisted areas, Latvia presented a proposal to the Commission for a regional aid map to be jointly adopted with the EU.

Since the secretariat of the State aid Surveillance Commission currently consists of only two experts, a certain staff reinforcement is advisable. Further resources should be provided including for training and information technology facilities.

Chapter 7: Agriculture

Agriculture in Latvia remained at 4.5% of gross value added in 2000, including forestry and related services.²⁰ Employment in agriculture (including forestry, hunting and fishing) has decreased during the last year. It accounted for 13.5% of total employment in 2000, as compared to 15.3% in 1999.²¹

In 2000, agricultural production in cereals recovered from the 1999 drop, but milk production further decreased even though the yield per cow increased in 2000 by more than 10% compared to 1999.²² The output of pigmeat and poultry meat remained fairly stable; the production of beef and veal decreased while domestic consumption increased.

In 2000, EC imports of agricultural products originating in Latvia decreased by 4% to €36.8 million. EC exports to Latvia increased by 21% to €230 million. The trade balance in favour of the Community amounted to €193.2 million compared to €151.6 million in 1999.²³ The most important product groups in terms of EC imports from Latvia are dairy products (28%) with a decrease of 22% and raw hides and skins (18%) with an increase of 76%. As far as EC

²⁰ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

²¹ Eurostat 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.

²² Source: *Prospects for Agricultural Markets 2000-2008*, Chapter II Prospects for agricultural markets in the CEECs, DG Agriculture, July 2001.

²³ Source: Uruguay Round Agreement definition of agricultural products, figures taken from EUROSTAT COMEXT (see U.E. 12/15: Commerce des Produits Agricoles 1988-2000, 1 Partie D.G. AGRI/A.2 Analyses quantitatives, prévisions, statistiques, études, 2001, p. 10-57 et 86-89).

exports to Latvia are concerned, the most important sectors are tobacco (17%) with an increase of 170%, beverages (11%) with an increase of 30%, fruit (11%) with an increase of 78% and miscellaneous preparations (8%) with an increase of 12%. In this context, and following the new reciprocal concession on agricultural products negotiated under the Europe Agreement, two thirds of bilateral trade in agricultural products now benefit from preferences (*see A.b – Relations between the European Union and Latvia*).

During the last year, no important changes in Latvia's agricultural policy have taken place.

In 2001, the state agricultural budget will amount to € 89.1 million, of which € 34.8 million (corresponding to 3 % of the annual total national budget) will finance direct support schemes to farmers. On the basis of the medium-term agricultural support policy paper (1998-2002), the following types of support will be granted during the year 2001: soil improvement, increased farm productivity, organic farming, the development of livestock and crop farming and fisheries, farmer education, diversification of economic activities in rural areas, reduction of sowing risks and technical up-grading of agricultural production. For the first time, producers' organisations will also receive state support in 2001.

With respect to land reform, some progress has been made. Whereas registration in the Cadastre has been virtually complete for several years, registration in the Legal Register (Land Book) is progressing only slowly and has reached 64%.

Horizontal issues

As regards the preparations for the future implementation of the *European Agricultural Guidance and Guarantee Fund (EAGGF)*, Latvia made further progress during the last year. The Rural Development Plan, adopted in October 2000, sets out the main lines of Latvia's rural development strategy and the main objectives to be attained by SAPARD assistance (*see A.b – Relations between the European Union and Latvia*). The SAPARD agency was accredited at national level. The procedure for the Commission decision referring the management of SAPARD aid is ongoing. During the last year, training activities for employees at both central level and at the 9 regional offices have been carried out.

In March 2001, amendments to the Law on Agriculture came into force. As concerns the *Integrated Administration and Control System (IACS)*, they provide for the government to be responsible for implementation. While this process had already been completed for bovine animals, work continued on setting up the herd and animal registration system for goats, sheep and pigs.

No substantial new developments have taken place as concerns *trade mechanisms* or *quality policy*.

As concerns *organic farming*, the amendments to the Law on Agriculture of March 2001 state that the government should draft regulations concerning production, storage, processing and trade.

The amendments to the Law on Agriculture of March 2001 further foresee that the government should adopt the legislation necessary for the *Farm Accountancy Data Network*. They also provide that an agricultural census should take place every ten years. The last census was

carried out in June and July 2001, and will provide the basic information for completing the Farm Accountancy Data Network (*see Chapter 12 – Statistics*).

Common Market Organisations

Since the last Regular Report, Latvia has made some progress in its preparations for the introduction of Common Market Organisations, especially at strategic level.

In December 2000, the Ministry of Agriculture completed guidelines for the implementation of EC Common Market Organisations. On the basis of these guidelines, a detailed implementation plan was finalised in June 2001. The plan identifies the relevant EC legislation, the institution responsible and the national legislation required for each Common Market Organisation.

In 2001, a system of area payments based on the EC model was introduced, covering cereals, vegetables and oil seeds. The system is administered by the Rural Support Service.

As concerns *arable crops*, Latvia has continued intervention in the grain market during the last year. The scheme was first introduced in 1998.

Latvia has been practising intervention in the *sugar* market for the second year. The government adopted several regulations to further specify the system.

Concerning *specialised crops (including fruit and vegetables, plants and flowers, wine and spirits)*, legislation on compulsory safety requirements in respect of spirits and spirit drinks and requirements for marking of alcoholic drinks was adopted in March 2001. No important developments concerning *animal products* are to be reported.

Rural development and forestry

During the last year, Latvia has continued to implement its national Support Programme for Agriculture (1998-2002), as well as investments under the Public Investment Programme, and other activities aiming to promote rural development. Within the Ministry of Agriculture, the Rural Development Department, which has been operational for over one year, concentrated on the preparation of a policy paper on a new rural development strategy. According to the *acquis*, only *agri-environmental measures* are compulsory. No substantial developments in this area can be reported.

After the legal framework in the area of Forestry had been created in early 2000 with the adoption of two framework laws, secondary legislation was adopted during the last year concerning forest regeneration, a state forest register and tree felling.

Veterinary and phytosanitary issues, including food safety

During the last year, a number of legislative acts have been adopted in the veterinary and phytosanitary areas, and progress has also been made in the area of food safety, both at strategic level and in creating an appropriate administrative set-up.

A new Law on **Veterinary** Medicine entered into force in July 2001, introducing certain EC requirements and foreseeing the adoption by the government of implementing legislation to complete alignment with the veterinary *acquis*. Preparations for participation in the external movement control system (ANIMO) have continued during the last year.

Concerning *common measures*, no substantial developments are to be reported.

In the area of *animal welfare*, legislation on welfare requirements for pigs and calves was adopted in February 2001. Since September 2001, legislation on animal transportation has been in force. In recent months, several pieces of legislation concerning breeding have been adopted, as well as on maintaining a Herd Book and on compulsory pedigree documentation and issuing procedures.

Concerning the *control of animal diseases and animal health*, preparations for participation in the animal disease notification system (ADNS) continued. Concerning compensation for losses to owners of animals and products of animal origin, and measures taken by the government in case of actual outbreaks or suspicion of diseases, the new Law on Veterinary Medicine foresees funding from the state budget.

No substantial developments concerning animal waste treatment can be reported.

In the area of public health protection, legislation on the production and marketing of minced meat and meat preparations was adopted in January 2001. During the first half of 2001, hygiene requirements concerning minced meat, meat cutting, packing and wrapping were established.

During the last year, one more milk-processing enterprise has been authorised to export to the EC. However, a large number of food processing establishments do not yet fulfil EC requirements. During the last year, an initial strategy has been developed. In addition, legislation adopted in March 2001 foresees that all enterprises involved in the food chain will be inspected, and a unified register will be set up.

Concerning animal nutrition, no particular developments are to be reported.

As regards the administrative structures necessary for the enforcement of the *acquis*, and in particular veterinary border checks, several measures have been taken during the last year to improve the existing system. In November 2000, legislation concerning samples of certificates for veterinary control of goods and live animals in line with the *acquis* were adopted. The new Law on Veterinary Medicine rationalised the institutional set-up by making a single authority, the Food and Veterinary Service, responsible for veterinary checks both internally and on the borders. Until now, two separate institutions had been involved. Latvia also selected 9 border posts that will be kept in the long term. During the last year, the Food and Veterinary Department of the Ministry of Agriculture has recruited additional staff (specialists and veterinarians), and all veterinary inspectors underwent training in 2000.

In the **phytosanitary** sector, secondary legislation on *plant health (harmful organisms and pesticides)* was adopted, whereas no important legislative developments on *plant hygiene* are to be reported. However, surveys on particularly harmful organisms continued, and a manual for inspectors was prepared.

In the area of *plant variety protection*, a general Catalogue of Plant Varieties was adopted in October 2000. Further secondary legislation concerning seeds and propagating material has also been adopted, and in particular on seed production and seed marketing of oil plants and fibre plants and fodder plants, on vegetable planting material, on growing and marketing of seed potatoes and beet seeds, as well as on forest reproductive material.

Also during the last year, instructions of the State Plant Protection Service on the conditions for introduction and movement of material for trial and scientific purposes have been issued, and amendments to the 'Plant Quarantine Regulations' have been adopted to regulate the import of oak from the United States and Canada. In 2000, the registration of producers and importers of particular plants and plant products started.

Concerning the administrative set-up, in February 2001, a new structure for the State Plant Protection Service was adopted. The re-organisation was carried out in June 2001 and included the separation of control and surveillance activities from co-ordination and planning functions.

During the last year, the creation of a database of rejected consignments and the electronic connection of the Sanitary Border Inspection with the 24 sanitary border control posts was completed and has become operational. In addition, the Sanitary Border Inspectorate continued to provide the prospective future EU external border posts with the necessary equipment. To date, 13 control posts out of 26 have the appliances necessary to carry out sampling, and 2 posts have been provided with laboratory equipment. The implementation of the training programme for the Sanitary Border Inspectors, which was devised in 2000, has continued. The phytosanitary laboratory has been strengthened, and preparations for accreditation have been started. The laboratory has moved to new premises, new equipment has been provided, a greenhouse completed and some training activities have been carried out.

As regards **food safety** (*see also Chapter 1 - Free movement of goods*), the government adopted a Food Safety Strategy in April 2001. The document outlines the systems for co-ordination between the various official bodies involved, their competencies, organisation and staffing. The strategy to develop the food safety system in Latvia involves both legislative changes and also a reorganisation of official institutions. To this end, the government decided at the same time to establish a Joint Food Supervision Service (under the supervision of the Ministry of Agriculture) to overcome problems of co-ordination of the different actors involved and to implement the Food Safety Strategy. The new service unites the current state veterinary service, sanitary border inspectorate, state quality control service for plant products and parts of the state sanitary inspectorate and is scheduled to become operational in January 2002.

During the last year, Latvia has introduced certain measures to prevent and control BSE (total feed ban). Routine testing began on a small scale, but does not yet fully comply with EC requirements. As of June 2001, 800 cows had been checked while the State Veterinary Service was planning to test a total of 1800 by the end of 2001.

Overall assessment

During the last year, Latvia has further advanced with the preparations to integrate its agricultural sector into that of the European Union, especially in the veterinary and phytosanitary sectors. Considerable challenges still lie ahead, however, and the process of legal alignment and of establishing the necessary institutional structures needs to continue.

Land consolidation continues to advance at a slow pace, whereas land reform and privatisation of agricultural land are much further ahead.

Concerning **horizontal issues**, preparations for future participation in the *European Agricultural Guidance and Guarantee Fund (EAGGF)* need to continue in order to be in a position to fully implement the *acquis* upon accession. The establishment of the Rural Support Service as SAPARD agency is a first step to becoming familiar with EAGGF rules and procedures. The Rural Support Service's future role as a single paying agency was confirmed in the implementation plan for Common Market Organisations of June 2001, and it will now be important to carry out the necessary practical arrangements.

For the *Integrated Administration and Control System (IACS)*, progress to date has been limited, even though its legal basis was enhanced in March 2001. Existing databases and networks need to be improved further. Particular attention also needs to be devoted to the digitalisation of land parcels according to EC requirements.

As to *trade mechanisms*, the strengthening of the administrative structures needs to continue, with particular attention to export refunds, import/export licences, collection of export taxes, control of destinations of intervention products, physical checks, and veterinary checks for animal welfare.

For *quality policy*, Latvian legislation already incorporates some of the EC requirements. Further work is, however, needed, in particular as concerns the designation of administrative structures that will actually ensure the protection of geographical indications and designations of origin, as well as issue certificates of specific character for agricultural products and foodstuffs.

Concerning organic farming, the preparations for appropriate control have started, but both alignment and work on the administrative structures needs to continue. The amendments to the Law on Agriculture of March 2001 have set up the necessary framework for this.

Latvia has started to set up the *Farm accountancy data network*, and the results of the 2001 agricultural census, once available, will be an important contribution to work in this area. Work on the administrative structures to operate the system needs to continue.

As regards the implementation of **Common Market Organisations**, Latvia now needs to carry out the actions foreseen in the implementation plan of June 2001 as a matter of priority. While Latvia has parallel mechanisms for some of the areas for which common market organisations exist in the EU, including cereals and sugar, they need to be brought in conformity with EC requirements. Considerable legislative work in all areas still lies ahead. As concerns the necessary administrative structures, the Rural Support Service as the single paying agency, as well as all other involved bodies still need to be adjusted to the requirements of the *acquis*.

In the area of **Rural Development and Forestry**, Latvia needs to make further progress as regards the introduction of *agri-environmental* schemes.

In the **veterinary** sector, progress in aligning with the *acquis* has been made, but much work still lies ahead. Following the entry into force of the new Framework Law in July 2001, implementing legislation will need to be adopted. Preparations for participation in the external movement control system (ANIMO) are continuing. As to *common measures*, EC requirements concerning the fields of hormones, thyrostatics, beta-agonists and BST, as well as medicated feedingstuffs, have already been transposed. Further alignment is necessary concerning residues and zoonosis. Identification and registration of cattle has been completed, but the identification and registration of pigs, sheep and goats remains to be finalised. Regarding

animal welfare, Latvia's legislation still needs to be adjusted to EC requirements. For *veterinary control*, now that the 9 border posts that will be kept in the long term have been identified, a detailed work programme for border inspection posts with a view to upgrading them to meet EC requirements should be drawn up. The upgrading of the existing animal disease notification system needs to continue in preparation for participation in the EC's animal disease notification system (ADNS). As regards, *animal waste treatment*, Latvia's legislation is not yet fully in line, no high-risk rendering plants exist so far, and no plan for their construction has been finalised. None of the existing low-risk establishments meets EC standards. Animal waste collection is also not yet carried out in full compliance with the *acquis*.

Further efforts are also required in the area of *public health protection*. The process of bringing food processing establishments into line with EC requirements is far from being completed. While an initial strategy with a view to meeting EC requirements has been developed, no detailed action plan has yet been established. In the red meat and poultry sector, none of the establishments meet the EC requirements and in the fishery and dairy sectors only few.

Concerning *animal nutrition*, the Law on Animal Feeding Stuffs, a framework law aimed at transposing the bulk of the relevant Community legislation, is still pending.

The transposition process in the **phytosanitary** sector is well under way but needs to be completed, for example, as concerns the plant passport system, which has not yet been introduced. Alignment concerning *plant health (harmful organisms and pesticides)*, *plant hygiene* and *plant variety protection* needs to be completed.

To help structure the workload ahead, Latvia needs to develop a comprehensive and detailed strategy for transposition, implementation and enforcement with regard to the whole of the veterinary and phytosanitary *acquis*.

The reform and restructuring of the administrative structures is ongoing. The strengthening of the implementation and control structures has started and should continue to be capable of ensuring a full and effective implementation of the *acquis*. For this purpose, sufficient financial resources to carry out veterinary and sanitary controls need to be provided. Continued particular attention also needs to be devoted to the upgrading of border posts.

In the area of **food safety**, large parts of the *acquis* have already been transposed in Latvia. The implementation of the Food Safety Strategy of April 2001 should be facilitated once the new institutional set-up, the Joint Food Supervision Service, has become operational. In the case of BSE, alignment with the *acquis* needs to be completed. No concrete plans to extend the testing programmes to fully comply with EC requirements have been developed, and the removal of Specified Risk Materials has not yet started.

Chapter 8: Fisheries

Since the last Regular Report, the process of legislative alignment continued. In the area of administrative capacities, the reinforcement of the Marine Environmental Board (MEB), the intensification of controls and the re-measurement of fishing vessels are positive steps to be noted.

In the field of **resource management, inspection and control**, legislation was partly harmonised with the *acquis* requirements by the adoption of the Regulation on Control of Fish Landings and Fish Sales, Transport, Storehouses and Production Premises in February 2001. However, full alignment remains to be achieved. The Regulation on Commercial Fishing in the Territorial Waters and the Economic Zones Waters, which should provide the legal basis for a Vessel Monitoring System as well as provisions on documentation control, logbooks and licences, remains to be adopted. The satellite monitoring of fishing vessels was made compulsory in 2000 for all vessels applying for fishing possibilities in the current EC waters. By mid-2001, 64 vessels out of 150 above 24m length were equipped with the satellite-tracking device.

The MEB under supervision of the Ministry of Environment has overall responsibility for the management of Total Allowable Catch and for ensuring the application of fishing quotas determined by the National Board of Fisheries. The capacity was increased in 2000 with the recruitment of 11 inspectors to perform fish landing controls. The number of fish landing controls increased from 11,366 in 1999 to 13,584 in 2000. However, only 22 cases of violations were recorded in 2000. A Marine Environment Protection Development Programme 2000-2010 has been drawn up to strengthen fishing control and monitoring.

With regard to **structural actions**, in January 2001 legislation on Vessel Capacity Measurements was adopted, which includes the capacity measurement method required by the *acquis*. A separate and computerised fishing vessels register was established at the National Board of Fisheries. As of mid-2001, about 170 fishing vessels (out of about 400) have been re-measured according to the *acquis* requirements.

Regarding **market policy**, no new legislation was adopted. A detailed implementation plan for the introduction of the market intervention mechanisms required by the *acquis* was completed in June 2001 (*see Chapter 7 – Agriculture for the horizontal aspects*). As for the administrative structures, efforts were undertaken to improve the performance of the National Board of Fisheries, which is responsible for the collection and transmission of market data.

In 2001, Latvia continued the same policy of **state aid** to the fisheries sector, and the level of state aid also remained constant, with €715,000 (400,000 LVL) earmarked to upgrade safety and hygienic standards on vessels and help companies purchase the satellite monitoring devices. The Rural Support Service now manages the support and the National Board of Fisheries only provides comments on applications. Support is denied for boats older than 30 years old, and for companies whose catch level is too small.

Concerning **international fisheries agreements**, no particular developments have been recorded since the last Regular Report.

Overall assessment

Latvia's fisheries policy is partly aligned to the *acquis* in this area. Significant further efforts will be necessary, building on the progress that has already been achieved.

Concerning resource management, inspection and control, full legislative alignment has not yet been reached and needs to be completed. The installation of satellite tracking devices in part of the fishing fleet is a positive step but needs to be completed. Concerning landing control, the

sustainability of the current capacity has not yet been ensured. The 2001 budget failed to allocate funds to cover the costs of the additional 11 inspectors of the Maritime Environmental Board; as a provisional solution, inspection is still being financed by the Environmental Protection Fund and carried out with a few vessels. The equipment does not allow for control in deep seas, which is therefore carried out with the support of the navy. The employment of inspectors on a permanent and full time basis would help to strengthen the control capacity; the creation of an integrated fishing control and information system is needed to ensure an operative data flow of information between the regional ports and the central institutions.

The legislative basis for implementing the Community structural actions in fisheries is not yet in place. While developments regarding fleet registration appear satisfactory to date, the legal framework for the Fishing Vessel Register still needs further amendments to be brought fully in line with EC requirements, which will entail re-measuring the vessels and including the small coastal vessels. Only half of the vessels currently comply with the measurement requirements. Updated versions of the Fishing Fleet Development Programme for 2001-2003 and the Fish Processing Industry Development Programme for 2001-2006 have been finalised. Latvia should develop a management plan for fleet capacity in accordance with the available resources.

Regarding market policy, based on the implementation plan of June 2001, market intervention mechanisms will have to be developed. Full legislative harmonisation requires the adoption of regulations on marketing of fisheries and aquaculture products in line with EC regulations. Producers' organisations have not yet been established.

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

Latvia is a member of several international fisheries organisations, in particular the International Baltic Sea Fisheries Commission and the North Eastern Atlantic Fisheries Commission, and has bilateral fisheries agreements with the European Community, the Faeroe Islands (Denmark), Russia, the USA and Canada.

Chapter 9: Transport policy

Latvia continued to make progress in aligning with the transport *acquis*, in particular in the areas of road and railway transport. As concerns the implementation and enforcement of legislation, progress was achieved in particular in the area of maritime safety, where controls and the detention record improved somewhat.

Concerning **Trans-European Transport Networks**, during the last year, investments in the main transport infrastructure corridors amounted to €104 million, of which about 26 % came from the national budget. Several projects were started, including on the Via Baltica. Latvia has established an institutional supervision structure within the Transport Ministry regarding infrastructure investments, which after accession will be transformed into a body responsible for monitoring implementation of TEN-transport projects.

In the area of **land transport**, amendments to the Road Traffic Law were adopted in February 2001, providing the basis for future secondary legislation to align with the *acquis* requirements concerning social legislation and recording equipment. In addition, legislation to align to the

requirements concerning weight and dimensions, type approval of wheeled vehicles, registration of vehicles, qualifications of drivers and carriage of dangerous goods was adopted between December 2000 and March 2001. Latvia signed the INTERBUS Agreement in December 2000, thereby taking an important step toward meeting the *acquis* requirements regarding international occasional passenger service. No progress can be reported in the road transport-related taxation area.

Regarding administrative capacity in this area, Latvia introduced professional competence examinations for road haulage and passenger transport operators, as required by the *acquis*, and the first exams were organised in April 2001. The installation of equipment to control weights and dimensions at the border posts was completed. Controls are performed by the customs services. Work has started on the appointment of safety advisers for the transport of dangerous goods.

In the area of *railways*, a Law on Carriage by Rail was adopted in December 2000 and entered into force in January 2001. It regulates relations between operator and client, terms for carriage of various goods, procedures for filling out freight consignment papers and other issues. Concerning the regulatory regime, following the entry into force of the Law on Public Services Regulators in June 2001, the new railways regulator (the Public Services Regulation Commission) started work in September 2001 with a brief to stimulate competitive conditions, defend user interests, and determine the methods of calculating passenger carriage tariffs. The new regulatory body took over the licensing functions from the Railway Administration, hence providing for the separation of functions between the licensing authority and the authority providing services. So far, the State Railway Administration has issued three carrier licences – one for carriage of freight and passengers, the other two for carriage of freight only. During the last year, the restructuring of the State Joint Stock Company Latvijas Dzelzceļš continued. While the state will retain responsibility for the maintenance and development of infrastructure, operations and services will be opened to market competition.

No legislation in the field of *inland waterways* was adopted during the last year. It should, however, be noted that Latvia has a non-connected network of inland navigable waterways.

In the area of *combined transport*, no new legislation was adopted. No new developments took place in the areas of *state aid* and *public service obligations*.

There have not been major legislative developments in the area of **air transport**, but Latvia had already aligned a substantial part of its legislation with the aviation *acquis*. The independent investigation authority for civil aviation accidents, which is a subordinated body to the Ministry of Transport, has now been in existence for more than one year, but the structure still needs to be approved by appropriate legislation. The administrative capacity of the Civil Aviation Administration (CAA) has been strengthened through various types of aviation training.

As regards **maritime transport**, no new legislation has been adopted. Nevertheless, Latvia has acceded to a number of international conventions during the reference period, including the International Convention on Safe Containers in December 2000, the International Convention relating to Intervention on the High Seas in Cases of Oil Pollution Casualties (May 2001), and the International Convention on arrest of ships (June 2001). Latvia has been fully implementing the Global Maritime Distress and Safety System (GMDSS) since June 2001. In February

2001, the government adopted a conceptual document on the system of tax and social security contributions relief in the maritime sector.

For *maritime safety*, the restructuring of the Latvian Maritime Administration, the executive body for implementation and control, continued. It is now composed of the following services: Ship Register, Seamen Register, Hydrographic Service and Maritime Safety Inspectorate. It is also in charge of supervising the authorised classification societies. The EC recognizes all the six classification societies working at present on behalf of Latvia. With the transfer of some functions from the Maritime Administration to the Port Authorities, and in particular the Vessels Traffic System (VTS), pilotage, and the harbour master office, the number of its employees was reduced from 480 to 160. 19 employees work in the Maritime Safety Inspectorate including 13 inspectors working primarily in three major ports. Inspectors have taken part in several international training sessions. The Maritime Administration has drawn up new seafarers' examination programmes and organised training sessions in this field.

According to 2000 statistics under the Paris Memorandum of Understanding, the percentage of Latvian flag vessels detained following Port State control was 7.6%, a significant decrease compared to 1999 (14.6%). This compares to an average for EU-flagged vessels of 3.9% in 2000. Concerning Port State controls in 2000, Latvia inspected 18.4% of ships calling at Latvian ports (minimum required inspection limit 25%), and detained 10.

Overall assessment

While Latvia is overall well advanced in aligning with the *acquis*, several areas still require particular attention. First results of the ongoing restructuring and upgrading of the administrative structures have already been achieved, but the process needs to continue.

As regards horizontal issues, the necessary legal acts for the interoperability of the Trans-European Networks high-speed railway system still have to be adopted.

Concerning road transport, a number of EC requirements still need to be introduced, such as provisions for resting times and social legislation, road transport taxation, access to the profession, accounting system for expenditure on the road infrastructure and installation and use of speed limitation devices for certain categories of vehicles. EC-type driving licences have also not yet been introduced. On the administrative side, an increase in the number of inspectors and an upgrading of the available equipment are necessary for road-side checks, the control of social rules in road transport, and the checking of transport authorisations at border check points. As for the control of vehicle weights, permits, resting time and dangerous goods licenses, the number of operational control teams appears to be too low to permit any effective control. As regards inland waterways, even though Latvia does not have an interconnected network, certain parts of the *acquis* nevertheless need to be transposed.

Regarding rail transport, the first steps towards an alignment with EC legislation have been taken, but secondary legislation still needs to be adopted, including provisions governing the carriage of dangerous goods. The liberalisation and opening of the market has to be accelerated, also taking into account the new railway *acquis*. In the area of combined transport, the *acquis* on common rules for certain types of combined transport of goods between Member States still needs to be adopted. Further progress is also needed in adopting and implementing the *acquis* regarding interoperability.

In the area of air transport, Latvia continues to progress towards full alignment. Among the pending issues, the structure of the independent Civil Air Accidents Investigation Authority still needs to receive parliamentary approval.

Concerning maritime transport, Latvia has made important alignment efforts. All International Maritime Organisation (IMO) Conventions relevant to the application of the *acquis* have been ratified; the new Maritime Code and the Law on Maritime Administration and Maritime Safety are, however, still under preparation, and secondary legislation needs to be developed. Internal restructuring is continuing. Specialized tasks such as Vessels Traffic System, search and rescue services, pollution prevention are being assigned to the Port Authority, while the Latvian Maritime Administration and the Maritime Safety Inspectorate will deal with ship/seafarers registration and Flag and Port State implementation-related matters.

The restructuring of the Maritime Administration was launched, with the aim of improving its functioning as regards both Flag State and Port State controls. These controls were entrusted to the Maritime Safety Inspectorate. Despite the recent progress, maritime safety is still an issue of concern. Latvia's vessel detention rates as a result of port State Control remain well above the average for EU-flagged vessels. The minimum qualification criteria for the selection of inspectors need to be applied, and a systematic follow-up by the inspectors themselves of the evolution of IMO and EC requirements needs to be ensured. A sufficient number of trained inspectors, as well as the necessary equipment, need to be provided. The division of responsibilities between the Maritime Department of the Ministry of Transport and the Latvian Maritime Administration concerning the control of the implementation of international requirements would benefit from better co-ordination.

Chapter 10: Taxation

Since the last Regular Report Latvia has made some progress, in terms of the alignment of legislation, and in particular concerning VAT. In addition, improvements have been made in the administrative capacity, and in particular in the field of tax collection.

In the area of **indirect taxation**, as regards *VAT*, Latvia adopted amendments to the Law on Valued Added Tax which entered into force in January 2001. These amendments harmonise the terminology used in the law with EC Directives and clarify the place of supply of services in the context of rendering transportation services and services related to movable property and telecommunication services. In addition, the Law now provides for single procedures of imposition for the VAT on books printed in Latvia and imported books from January 2003, thus abolishing discrimination concerning the exemption for services of printing houses. The Law also cancels the existing restrictions on input tax deduction.

In May 2001, legislation on refunds of VAT to international hauliers on fuel purchased in Latvia was approved, which constitutes the first step in a chain of measures to introduce a system of VAT refund for all foreign legal persons.

In the field of *excise duties*, Latvia adopted amendments to legislation on excise tax applicable to oil products, with a view to improving tax collection for oil products for double use. Regarding mineral oils, excise duty rates appear in general to be in line with the EC's defined minimum level. The only exceptions are kerosene, gas oil and heavy fuel oil, where the current

excise tax rate is lower than that stipulated in the EC directive. No developments can be reported as regards the duty rates on cigarettes, where much remains to be done.

As regards the area of **direct taxation**, some measures were taken to reform tax legislation and to apply the principles of the Code of Conduct for Business Taxation. Concerning **administrative co-operation and mutual assistance**, no specific developments are to be reported.

Concerning the administrative capacity, tax revenue collection increased by 5.2 % in 2001 (compared to 2000) and costs of collection were reduced. The wide-ranging administrative reform of the State Revenue Service (SRS), including the introduction of a three-level organisational structure, has continued.

So as to improve operational control, a new structural unit responsible for the development of methodology for topical controls and for methodological management of these activities in the territorial offices was established in 2000. The audit methodology has been improved in order to increase the effectiveness of tax control activities. Procedures for topical controls have been elaborated and constantly upgraded based on the assessment of high-risk zones related to trade.

To improve the quality of services provided to the taxpayers, client service halls are being established and a new service to taxpayers has been developed, providing information about the VAT payers registered in Latvia. In 2001, booklets were published on taxation issues, and made available for taxpayers in all territorial offices. A pilot project for the electronic filing of declarations was launched in the SRS in November 2000. Registration procedures for taxpayers were simplified by adoption of amendments to the Law on Taxes and Duties.

With regard to internal information technology systems, the new Tax Information system has been implemented in all SRS territorial offices. The Tax Information System provides the possibility of online electronic exchange of data with the other important registers (Enterprise Register, Citizens Register, State Social Insurance Agency and State Treasury).

Overall assessment

Overall, some of the most critical weaknesses identified previously have started to be addressed including tax collection, VAT refunds scheme and fiscal control. However, so far, little has been achieved as regards VAT and excise legislation. The measures taken to modernise and strengthen the tax administration should be continued without delay.

On VAT legislation, important efforts are still necessary, in particular concerning VAT exemptions, which are currently applied to a range of goods and services going beyond what is provided for by the *acquis*.

In the field of excise duties, legislation also requires extensive adjustments. As concerns excise rate levels, Latvia has advanced to some degree. However, the duty rates for most product categories remain lower than what is provided for under the *acquis*, and alignment should be further pursued and intensified. Latvia should also address the taxation structure for cigarettes by introducing the combined rate of the specific duty and ad valorem duty and certain protective measures relating to certain mineral oils.

As regards direct taxation and the directives on administrative co-operation and mutual assistance, further transposition is also still required. It will be important to ensure that existing and future legislation complies with the principles of the Code of Conduct for Business Taxation.

The setting up of national IT systems compatible with the EC systems should be given priority.

As regards administrative capacity, the steps taken go in the right direction, and the momentum should be maintained to continue upgrading the taxation administration. Action should focus particularly on strengthening headquarters and on developing the skills and capabilities of its staff. The Central Tax Administration should increase its decision-making powers, especially on such issues as internal organisation and the setting up of regional and local offices. In particular, the number of local offices should be screened and specialisation among them increased in order to enhance efficiency. The measures taken to improve customer services should continue and rules introducing the right of appeal against tax authorities should be fully enforced.

Chapter 11: Economic and monetary union

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

Since the last Regular Report, no new legislation has been adopted.

Overall assessment

Latvia will participate in EMU upon accession with the status of a country with a derogation 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, Latvian legislation is largely in line with the *acquis*. It is already in line with the *acquis* requirements concerning the prohibition of **direct public sector financing by the central bank**. As regards **privileged access of the public sector to financial institutions**, further changes to the Latvian legislation on private pension funds concerning rules for investing pension capital will be necessary.

Concerning the **independence of the Bank of Latvia**, the basic provisions of the Law of the Bank of Latvia largely comply with the requirements of the Treaty. Some further adjustments to the Law will be necessary, in particular concerning the grounds for dismissal of members of the Central Bank board. The Act on the Bank of Latvia provides for the possibility of dismissal for reasons that may not comply with the *acquis*.

Amendments to the Law of the Bank of Latvia still need to be adopted by Parliament.

Latvia continues to develop its administrative capacity to be able to implement the EMU *acquis*. This is most important in the area of economic policy co-ordination.

Chapter 12: Statistics

Latvia has made some progress over the past year in this area as a result of improved infrastructure and compliance with EC statistical requirements.

As regards **statistical infrastructure**, the situation has improved both in terms of strengthening the Central Statistical Bureau (CBS) and in terms of further compliance with the fundamental principles applied to the production of statistics and in particular the survey methodology. In addition, increased funding of the statistical infrastructure is now a budget planning priority for 2002, so as to improve the prospects for sustainability.

The Central Statistical Bureau (CSB) is a state body that functions under supervision of the Ministry of Economy. With regard to the implementation of professional and methodological functions, the CSB is an independent institution. The administrative capacity of the Central Statistical Bureau has been continuously strengthened over the last year. The CSB now employs 285 persons in its head office. 28 regional offices employ 156 persons.

Concerning **classifications**, in 2000, the COICOP classification was translated, published and disseminated. The related work on the revised versions of the NACE and CPA classifications has started.

Concerning **demographic and social statistics**, further progress has been made. The Population and Housing Census was carried out in 2000. The first preliminary results of this Census were published in November 2000. In order to improve migration statistics, a system of asylum-seeker and refugee statistics has been introduced, and a survey of the acquisition and loss of citizenship was launched.

The Labour Force Survey (LFS) questionnaire was improved and supplemented with an *ad hoc* module on transition from school to working life. Starting with the results of a survey in May 2000, the publication of LFS results has been simplified. The LFS is now conducted twice a year. In 2001 the Labour Cost Survey (LCS) was conducted largely in line with EC requirements.

As regards availability of statistics at **regional** level, 5 planning regions are defined at level III. The respective GDP data were calculated. Demography, unemployment, agriculture, vehicle fleet, labour force and energy data are available for the REGIO database.

In the field of **macro-economic statistics**, further progress has been made to bring macro-economic statistics into line with EC methodology. Primary data sources were improved, changing financial surveys of non-financial corporations from the cumulative basis to actual payments during quarters. In 2000, the description of the sources and methods used to compile non-financial National Accounts of Latvia for 1998 was presented to EUROSTAT. Improvements realised during these co-operation activities have been partly implemented in calculations for the years 1999 and 2000 and are presently being implemented for 2001. Training of specialists, including long-term visits, takes place within the framework of co-

operation. Responsibility for Balance of Payments, as well as foreign direct investments statistics, has been handed over to the Bank of Latvia.

Concerning **business statistics**, the work on the creation of a more advanced database for the Business Register (BR) has started. The CSB now has access to the Taxpayer Register. The questionnaires for the structural business survey were brought in line with EC requirements.

In retail trade statistics, the work on the implementation of short-term statistics in accordance with the EUROSTAT methodological requirements has continued in 2001. In 2000, the seasonally adjusted time series was introduced in accordance with international requirements. In line with EC requirements, for the first year, data on retail trade purchases is being collected by the place of purchase.

For **transport statistics**, as of 2001, freight by railway is counted in accordance with the *acquis*. The survey of cargo by road is continued in line with the requirements of the *acquis*. The motor vehicle register was updated by the Ministry of the Interior and is now operational. A survey on road transport was conducted in 2001. Some further work has been done to oblige ports to compile and transmit data, as inland waterways transport statistics are still incomplete and transit transport through inland waterways is not monitored.

As regards **external trade statistics**, improvements were made in this area by developing new customs data control programmes. Although exchange of data on external trade with EUROSTAT has started, there remain problems in coverage and quality. Latvia has therefore started mirror statistics exercises with several Member States in order to identify reasons for inconsistencies.

For **agricultural statistics** considerable progress has been achieved. The Agricultural Census was carried out in June and July 2001 and the processing of the results has started. The first results of the Agricultural Census 2001 are expected to be available at the end of 2001. The necessary state financing of €2.32 million (1.3 million LVL) was provided by the state budget. The questionnaire for the Census is in line with EC legislation and Food and Agriculture Organisation (FAO) recommendations.

The Agricultural Census is organised on the basis of the Farm Register and covers farms with agricultural land of at least 1 ha or where the value of production for sale is over €1788 (1000 LVL) irrespective of the area of agricultural land. The updating of the Farm Register established by the CSB was started in 2000 and continued in 2001 in co-operation with the State Land Service.

Overall assessment

Overall, Latvia is quite well advanced in statistics regarding the business register, agriculture and demographic statistics. The censuses and surveys being carried out and planned should help to further improve this. However, in a number of areas, in particular statistical infrastructure, classifications, macroeconomics, tourism and trade, much more work is needed on methodology, quality and completeness of data to achieve compliance with the *acquis*.

Despite the developments and improvements of the last year, further efforts are needed in areas including regional structures, setting of priorities, staff training, and ensuring appropriate staffing

in departments working on areas relevant for EU integration. Whilst there have been improvements in the qualification of staff in the CSB, the relatively high turnover of staff dealing with EU matters has affected a number of departments. Concerning resources, it is a positive sign that resources have been made available for the population census and the agricultural census, and that increased budgetary allocations for the CSB have been recognised as a priority requirement. The full independence of the CSB needs to be ensured.

Chapter 13: Social policy and employment

Since the last Regular Report, good progress has been made in aligning with the *acquis*, especially with the adoption of the Labour Code and the Law on Labour Protection. Several steps were also taken with a view to strengthening the administrative capacity, including training activities.

In the field of **labour law**, the new Labour Code was finally adopted by the Parliament in June 2001, transposing the majority of the labour law *acquis*. The Code is scheduled to come into force in June 2002. In addition, legislation on information and consultation of employees in Community-scale undertakings and groups of undertakings was adopted in March 2001 and entered into force in July 2001. The main efforts to upgrade the administrative capacity in this area included the training of employees of the State Labour Inspectorate and further improvements in the information technology systems, as well as training of employees of the State Employment Service.

Concerning **equal treatment for women and men**, the new Labour Code is intended to transpose the majority of the *acquis* provisions. In addition, the new Law on Labour Protection, which was adopted in June 2001 and will come into force in January 2002, transposes general requirements for health and safety of workers and risk assessment, as well as the *acquis* requirements concerning night work, maternity leave, time off for ante-natal examinations, prohibition of dismissal, employment rights and the protection of rights. In addition, secondary legislation regarding risk assessment and information, as well as cases in which exposure is prohibited, was adopted in August 2001. In 2000, a first court case concerning equal treatment, and in particular equal pay, had been appealed by the employer. The Appeals Court finally upheld the decision that the employer had treated the female employee unfairly. A conceptual document on gender equality was adopted by the government (*see also B.1. – Political Criteria*).

The new Law on Labour Protection also achieved further alignment with regard to **health and safety** at work, notably by transposing the framework directive. Regulations aimed at transposing a number of individual health and safety directives were adopted in the areas of work safety and health protection on construction sites, health and safety requirements at the workplace, protection for work with chemicals and protection for work with display screen equipment. On the administrative side, the State Labour Inspectorate currently operates with a total of 181 employees, of which 121 are inspectors. In the course of 2000, the inspectors imposed 732 fines on employers. Efforts were undertaken to inform employers, especially at the municipal level. In May 2001, the Government adopted measures to increase the operational efficiency of the State Labour Inspectorate by focusing its activities on high-risk branches of industry and enterprises, as well as on development of a database for statistics and analysis of occupational diseases and accidents at work.

In the area of **public health**, no new legislation was adopted. However, in March 2001, the government adopted a Public Health Strategy. This is an umbrella document for public health policy development, and the goal of the strategy is to improve the health level of the population and to improve the health indicators. The Annual Social Report released in September 2000 by the Ministry of Welfare points out that with 5.5 % of GDP allocated to financing the health sector, Latvia is still far from the minimum level of 7% of GDP of the EU countries.

In the field of **social dialogue**, the tripartite structure continued to dominate. The development of bipartite social dialogue remained weak at both national and regional level, although some trends towards its strengthening have been observed. The Training Centre of the Latvian Free Trade Unions Confederation organised training for representatives of branch trade unions and regional trade unions centres in 2000 and 2001. So far, collective agreements on wages and labour conditions have been concluded only in certain branches, covering more than half of the enterprises where a trade union is represented. In 1996 there were 1188 collective agreements effective in Latvia covering 189 545 employees, while in 2000 there were 2057 collective agreements covering 203 725 employees. Thus, collective agreements cover approximately 25% of the employees in the country. 2018 collective labour agreements were concluded at company level, while the number of collective labour agreements at branch level reached 39.

Concerning **employment**, the unemployment rate based on the methodology of the ILO amount to 14.6% in 2000. In February 2001, the Government adopted the National Employment Plan for the year 2001. Compared to the previous year, this Plan improved the definition of employment measures, criteria for selecting activities and implementation assessment indicators in respect of its goals. Previous deficiencies have been partly removed and the layout of activities has been adjusted to match particular EU employment guidelines. The focus of the Plan is on active employment measures. However, the Plan does not clearly demonstrate that adequate resources are being provided to implement these more active objectives. The State Employment Service currently has 28 centres with a total of 550 employees (for 609 positions). Progress can be noted, especially with regard to unemployed young people.

Latvia has launched the Employment Policy Review together with the Commission in order to examine progress made by Latvia in adapting its employment system so as to be able to implement the European Employment Strategy in line with the Employment Title. Work on a Joint Assessment of Employment Policies is at an advanced stage and should be concluded by the end of this year. The document will help set employment policy priorities for the coming years.

Concerning the preparations for future participation in the **European Social Fund** (ESF), the National Centre for ESF management training has been set up and the National Training Plan for the ESF was adopted by the government in March 2001.

In the field of **social protection**, the reform of the pension system continued, including the entry into force of the Law on State Funded Pensions in July 2001 regarding the second pillar of the pension system. For the first 18 months, the State Treasury will have the responsibility of managing second tier assets. After January 2003, the assets will be handed over to private asset managers. The Annual Social Report released by the Ministry of Welfare in autumn 2000 underlines the major drawbacks of the system. The inaccuracy of available data does not allow for a clear picture of the labour market. According to the data from the State Social Insurance

Agency, one third of the working population receive the minimum salary. Local governments have experienced great difficulties in implementing the guaranteed minimum income provision due to a shortage of funds.

As regards **discrimination**, no significant developments took place during the last year (see section B-1.2 – *Human rights and the protection of minorities*).

Overall assessment

An important step for the alignment of the Latvian legislation in the area of social policy and employment was achieved with the adoption of the Labour Code and the Law on Labour Protection. However, the process of alignment still needs to continue, and it will be vital to ensure adequate implementation and enforcement of the newly adopted legislation.

The Law on the Protection of Employees in the Event of Insolvency of Their Employer remains to be adopted. Once the legislation is adopted, a guarantee fund will have to be set up.

Latvia is aware of the need to upgrade the State Labour Inspectorate, and preparations to clarify and strengthen its legal status, tasks and functions are underway; however, the relevant legislation has not yet been adopted. The enhancement of the State Labour Inspectorate should include training of the labour protection specialists operating in the private sector (total number estimated at 8000). Although a rating system to assess risk is already in place, it needs to be further developed, which will require the training of the inspectors. There should be scope for specialisation in certain risk sectors, such as construction or wood processing. The labour inspectors have to further develop their analytical, advisory and counselling skills.

In the area of equality of treatment for women and men, substantial progress has been made. Attention should now focus on implementation and enforcement, and in particular on the development of institutions and monitoring, assessment and awareness proposals set out in the conceptual document on gender equality.

With regard to health and safety at work, a unified advanced training system for occupational safety and health needs to be put in place. Free public access to information on ensuring safe working conditions must be ensured.

The Public Health Strategy has to be implemented. To that end, a Public Health Agency has been entrusted with its implementation. Adequate human and financial resources need to be provided. Further efforts are also required to develop measures to improve the control of many communicable diseases, which remains a matter of concern. This requires in particular to follow the principles and methodology of the Community network on communicable diseases. Furthermore, efforts are needed to develop a health monitoring system.

On social dialogue, tripartite structures must lead to more effective consultations and results. Efforts are required to promote and strengthen bi-partite social dialogue structures, especially at sectoral level. The government must also assist the social partners to prepare them for the active role they will be called to play in the EU context and to promote the appropriate structures for collective bargaining and social dialogue in general.

The legal basis for the institutional set-up for future participation in the European Social Fund (ESF) still needs to be adopted. Further efforts are required to improve both the administrative

capacity and the mechanism for co-ordination of ESF interventions in the context of the European Employment Strategy and the Inclusion Process. The competencies of the institutions involved in the financial administration, monitoring and implementation of the Fund must be specified, and a central responsibility for the ESF needs to be defined. There is also a need to develop a proper control system for financing, monitoring and evaluation for specific ESF purposes.

In the field of social protection, continued efforts are required to implement the reforms that have been introduced. Latvia continues to be confronted with significant parts of its population – both unemployed and employed – living below subsistence levels. Labour market and social policy, through appropriate institutions, will have to address this issue. Attention should be paid to the fact that such policies need to be inclusive of all groups within Latvian society.

Regarding employment, the Joint Assessment of the Employment Policy Priorities of Latvia (JAP) will represent an important step in the preparation for accession. It will be important to ensure an effective monitoring of the phasing in of the priorities and commitments contained in the JAP.

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

Further efforts are needed to ensure alignment with the *acquis* on anti-discrimination based on Art. 13 of the Treaty.

Chapter 14: Energy

Since the last Regular Report, the process of legislative alignment has continued. On the administrative side, a number of new bodies were established, including the Regulator, the Energy Inspectorate and the Radiation Safety Centre.

Concerning **security of supply**, no new legislation concerning either *security stocks* or *oil supply crisis management measures* has been adopted. In August 2001, the government adopted a conceptual document with a detailed plan and financial commitments to progressively build up the required oil stocks, and decided that both the state and the entrepreneurs would participate in the financing of establishment and maintenance of oil stocks; of the 90 days of mandatory stocks foreseen by the *acquis*, the state would be responsible for 30 days, and entrepreneurs for 60 days.

In the area of **competitiveness and the internal energy market**, the Ministry of Economy accepted the Plan for restructuring the state-owned energy utility, Latvenergo, and the timing for the preparation of the main decisions in November 2000. During the last year, the reorganisation, which is a precondition for permitting changes in ownership to take place, progressed slowly, and only the merging of two Combined Heat and Power Stations, along with the merging of three Hydro Power Stations into one single body, have been completed.

Based on the Law on Public Services Regulators, in force since June 2001, the new regulatory body, the Public Services Regulation Commission, started its work in September 2001, taking over the functions of the former Energy Regulation Council. The new regime aims at the separation of energy policy formulation and monitoring functions from regulatory functions. The new structure continues to fall under the supervision of the Ministry of Economy. The day-to-day functioning of the Regulator is performed by the License Bureau, which is divided into 8 different departments and employs 25 permanent staff members. Preparatory work has been carried out for the reorganisation of the License Bureau into a structural unit of the new regulatory body, with the aim of ensuring continuity in performing the regulatory function in the field of energy.

Measures have been taken to gradually open the *electricity market*. In December 2000, the transmission and distribution system services tariffs for eligible consumers were approved. In November 2000, the government adopted legislation concerning the quantity of electricity consumption needed to obtain the status of eligible consumer.

Regarding the *gas market*, the Ministry of Economy established a working group in February 2001 with the aim of reviewing gas market liberalisation issues. The privatisation process for Latvijas Gaze continued. As a result of the sale of state-owned shares in Latvijas Gaze, the state-owned equity holding has decreased to 8%. In December 2000, the Energy Department of the Ministry of Economy was enlarged with the creation of a division for the oil and gas industry (3 employees) to carry out the new functions of the ministry concerning pre-investigation, exploration and production of hydrocarbons.

No new legislation concerning *solid fuels, oil, or transit and transparency* was adopted.

Concerning **energy efficiency**, in November 2000, the government approved the National Energy Efficiency Strategy, which complements the existing National Construction Programme and the Programme for Improving Heat Efficiency in Public Buildings. In order to implement the Strategy, the Government adopted a package of legislation in January 2001. It provides for transposition of the *acquis* in the area of energy efficiency labelling. The Energy Inspectorate was established to perform energy efficiency control and supervision according to the Energy Law, but has not yet started its work.

As regards **nuclear energy**, the decommissioning of the Salaspils Nuclear Reactor, a pool-type research reactor which closed in 1998, is ongoing. A steering group was created in January 2001 to co-ordinate the Salaspils decommissioning project. The public company RAPA Ltd. monitors the Salaspils nuclear reactor and ensures its conservation and dismantling. RAPA Ltd. was created in February 2001 from the existing RADONS and Reaktors companies. It is envisaged to reorganise the new joint company in 2002 to a true radwaste agency.

The Radiation Safety Centre started operations in July 2001 and bears responsibility for supervision and control in the radiation safety and nuclear safety field, in accordance with the Law on Radiation Safety and Nuclear Safety. The Centre is under the supervision of the Ministry of Environmental Protection and Regional Development and has 31 employees.

Regarding Nuclear Material Safeguards, Latvia has concluded a Full Scope Safeguards Agreement with the IAEA. An Additional Protocol to this Agreement has been signed in July 2001.

Overall assessment

Latvia's legislation is at present partially aligned with the *acquis*, and considerable work is still required. The oil stocks and the internal energy market are key areas which are lagging behind and require particular attention. In the field of administrative capacity, the efforts should be reinforced.

As regards security of supplies, and notably oil stocks, the Latvian legislation is not yet in line. The conceptual document on Formation of the Oil Product Reserve, adopted by the government in February 2000, has been revised in order to ensure consistency with the *acquis* relating to the obligation to maintain minimum stocks of crude oil and/or petroleum products. The administrative structure for oil stocks management has still to be created.

Full harmonisation with the Electricity and Gas Directives is far from being achieved. Restructuring and privatisation plans, market opening, definition of eligible customers and the regime for network access are still open issues. The Regulator (Public Services Regulation Commission) should enjoy independence and be properly staffed in order to carry out the functions defined in the gas and electricity directives. Price distortions still have to be eliminated. The liberalisation process in the electricity sector, and in particular the reorganisation of the state electricity utility Latvenergo, are still in the early stages. The liberalisation of the gas market in Latvia could be hampered by the (reportedly) exclusive rights of Latvijas Gaze concerning distribution, transmission and storage for a long period. In order to comply with EC requirements, this potential monopoly will have to be reviewed. Latvia's legislation has not yet been fully aligned with the *acquis* regarding electricity and gas transit, nor as regards transparency. Current legislation in the oil sector needs to be amended further in order to comply with the EC reporting requirements for products and prices. Legislation on hydrocarbons licensing is already in line with the *acquis*.

Concerning energy efficiency, alignment with the *acquis* is partial. The co-ordination of activities must be improved in order to maximise results, and the entire process of project selection, implementation, and assessment in this field must be monitored. The use of renewable energy needs to be enhanced, and the relevant institutions in this area strengthened.

As regards the issue of nuclear energy, the European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries. In June 2001, the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. In July, the Commission conveyed this report to the candidate countries. The report recommends all candidate countries to continue their national programmes regarding the safe management of spent fuel and radioactive waste, and regarding the safety of their research reactors.

Latvia will need to ensure compliance with Euratom requirements and procedures. In this respect, continued attention should be given to preparing the implementation of Euratom Safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or structures operating nuclear installations or storing nuclear material.

Chapter 15: Industrial policy²⁴

Since the 2000 Regular Report, Latvia has made limited progress with the development of industrial policy. Implementation has, as during the previous year, mainly concentrated on investment promotion. Only limited progress has been made in the promotion of competitiveness. Efforts have focused on conceptual aspects and little has been done in terms of implementation.

After a wide consultation process, the Cabinet of Ministers approved in March 2001 an **industrial policy** document entitled “Guidelines for Industry Development in Latvia”. The Guidelines formalise the Government shift from traditional sectoral approach towards a more integrated approach and its willingness to focus on factors that contribute towards the formation of competitive industrial clusters. In addition to several horizontal industrial policy principles applicable to all sectors, the Guidelines also identify branches that are considered particularly promising as regards bringing extra value added to Latvia’s industrial output.

It should be noted that the government has made efforts to further integrate the business community in the policy-making process. In October 2000 the Minister of Economy re-vitalised the Experts Council, which improves consultation with industry in the form of 19 sectoral Experts Councils.

Since last year government policy has again mainly focused on **investment promotion**, in particular through simplification of legal and administrative procedures (*see also chapter 16 – Small and medium-sized enterprises for progress in implementing the business environment*). Several tax initiatives aimed at the promotion of domestic investment were introduced, such as the reduction of corporate income tax for high-tech manufacturers and accelerated depreciation rates for IT hardware.

In 2000 Latvia witnessed a steady growth in both domestic and foreign investments. In 2000 the real growth rate of fixed capital formation was 10.8% and the share of gross fixed capital formation in GDP reached 24.6%. There are signs of the strengthening of the Latvian Development Agency’s capacity in attracting foreign investors. Major investment projects such as PET resin plant and HGF automotive rubber parts factory have materialised.

Since last year, **privatisation and restructuring** have made little further progress. The privatisation process is, however, virtually complete in the industrial sector (the private sector accounted for 90% of industrial output in 2000 against 81.5% in 1999). In large companies the tendency to consolidate corporate ownership continues. (*see Section B.1.2. - Economic criteria*).

Overall assessment

Overall, Latvia’s policy towards industry is by and large in conformity with the principles of EC industrial policy, i.e. market-based, stable and predictable. The adoption of the guidelines represents a further step towards the elaboration of an integrated industrial strategy. However, the methodology used to identify the priority industries does not seem to have been based on a

²⁴ Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (*see Chapter 16 - Small and medium-sized enterprises*).

thorough and methodologically sound strategic planning research exercise. Latvia should continue its efforts and set clear priorities in collaboration with the business community and the financial sector. Strengthening its competitiveness with a view to integrating its enterprise sector in the Single Market is still one of the main challenges facing the country.

During the last couple of years investments in manufacturing increased, diversifying from early investments in food and wood processing to include textiles, garments, chemicals, base metals, metal products and machinery. The fact that, foreign investment grew in most manufacturing sectors in 2000 would suggest that the government's efforts are bearing fruits (*see Section B.1.2. - Economic criteria*).

While the necessary administrative bodies have been established, the administrative structure in this area still remains too fragmented. The central body responsible for the formulation and co-ordination of industrial policy is the Ministry of Economy. The line ministries that are responsible for managing specific industrial branches take part in the policy-making process. The Ministry of Economy would need to strengthen its role as co-ordinator. The Ministry has delegated many functions related to the promotion of entrepreneurship and investment to the Latvian Development Agency, which is due to be re-organised into a state agency in accordance with the provisions of the new Law on Agencies adopted in March 2001. Privatisation is the responsibility of the Latvian Privatisation Agency, which is also under the supervision of the Ministry of Economy. The other agencies and governmental bodies involved in the implementation process are the Competition Council, the Latvian Standards Organisation, the Regional Development Council, and the Latvian Technological Centre.

Over the past couple of years, Latvia has witnessed increasing activity by business associations and significant improvement in their dialogue with the Government. The Latvian National Economy Council comprises 22 representatives of the business community, and state and non-state organisations including the Latvian Chamber of Commerce and Industry and the Minister of Economy who has the status of an honorary member. On several occasions, it has collaborated effectively with the Foreign Investors Council in Latvia. However, the development of business associations and their top-level organisations in Latvia is still in the early stages.

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

Chapter 16: Small and medium-sized enterprises²⁵

Since the last Regular Report, Latvia has made little progress in revising its SME policy and reforming the state support system for business promotion. Efforts to improve the business environment have continued.

To date, measures in support to SMEs have not had a significant impact on SME development. Since the last Regular report, the government has taken some limited steps to address shortcomings of the current **SME strategy and implementing policies**.

²⁵ Developments concerning SME policy should be seen in relation to the overall enterprise policy, including Industrial policy (*see Chapter 15 - Industrial policy*).

In 2000, the Latvian Government launched an evaluation of the activities under the National Programme for SME Development 1997-2001, which is still to be finalised. In December 2000 the Government approved the “Guidelines for Industry Development in Latvia”. The Guidelines and the findings of the evaluation exercise will constitute the basis for the next National Programme for SME Development 2002-2006. In order to ensure the transition between the two programmes, an Action Plan for the years 2001-2002 is being implemented. It puts the emphasis on access to finance, access to information and the definition of a model structure for business incubators.

The Ministry of Economy was reorganised in early 2001. Two separate Departments on Entrepreneurship and Industry have been created under the responsibility of two different Deputy State Secretaries. The reorganisation process has caused some delays in preparing the new programme for SME development.

Access to finance remains one important obstacle to the development of Latvian SMEs. Some progress has been made in this area due to Government support schemes for SMEs including State guarantees for bank loans.

Latvia has progressed further in the improvement of the **business environment**. Latvian authorities continue to maintain an effective dialogue with the business community. Regular reviews of the implementation of the Action Plan to Improve Business Environment in Latvia have been carried out. The third revised version of the Action Plan was approved in July 2001.

The main achievements have been the administration of the tax system and customs and border-crossing procedures. The Law on Corporate Income Tax contains special provisions intended to alleviate corporate income tax for SMEs. However, delays in the entry into force of the new Commercial Law, as well as uncertainty over the implementation of the new procedure for the calculation of the real estate tax, however, are causes for concern.

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

Overall assessment

Latvia’s policy towards SMEs follows the approach promoted at EU level. However, lack of resources and changes in the organisation of the Ministry of Economy have continued to hinder the effective implementation of SME policy. If the current enterprise policy rightly puts the emphasis on the promotion of entrepreneurship, it nevertheless fails to identify adequate delivery mechanisms.

Despite efforts to consolidate the system of business promotion, the performance of the Latvian Guarantee Agency and state joint stock company “Latvia eksportkredits” (Latvian Export Credit) is unsatisfactory. The future of these state non-profit organisations thus remains unclear.

As far as the SME definition is concerned, the distinction between micro, small and medium-sized enterprises still need to be introduced into the Law on Corporate Income Tax and the Law on Control of State Aid and Municipal Support Provided to Business Activity.

The most important issues affecting the Latvian business environment have been identified and addressed through efficient dialogue between the policy-making institutions and the business community. Further efforts are however needed to improve information to enterprises, especially in relation to the changes undertaken by the Government in business legislation. It is also important to find a mechanism for assessing remaining barriers, which impinge on micro and small businesses. The Latvian Development Agency, which monitors progress in implementing the Action Plan to Improve the Business Environment, needs further support.

The central body responsible for the formulation and co-ordination of enterprise and SME policy is the Ministry of the Economy. While the basic implementation bodies both at national and regional level have already been established, the administrative structure for this sector remains fragmented and inadequately co-ordinated, and its actions therefore have limited impact on the business community. The future of most organisations which seek to support SME development is highly uncertain and significant improvement in their functioning is still necessary in order to prepare Latvia's SME sector for integration into the European Union. The absence of business organisations representing the interests of smaller businesses remains a problem.

Chapter 17: Science and research

Since the last Regular Report, Latvia's efforts continued to focus on the implementation of the Fifth Framework Programme; some progress at the strategic level was also made.

A conceptual document on innovation aimed at promoting the link between research and industry was adopted by the government at the beginning of 2001, and preparations for an action plan to implement the conceptual document started.

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

Overall assessment

The financial and institutional framework for participation in the Fifth Framework Programme is well established. However, there is a need to enhance Latvia's participation in the Community programmes through strengthening of the administrative capacity and technological infrastructure, as well as a more active presence of the enterprise sector, including SMEs.

For the further development of the sector and for an effective integration of Latvia into the European Research Area (ERA), it is important to increase the gross domestic expenditure on research and development.

The adoption of the conceptual document on innovation represents a positive step towards strengthening the links between research and development policy and industrial and SME policy. It will be important to further pursue co-operation between all institutions involved and to encourage research activities relevant for industrial development (*see Chapters 15 and 16 on Industrial policy and SMEs*).

Chapter 18: Education and training

Efforts since the last Regular Report concentrated on strengthening the institutions involved and on carrying forward the reform of the education system.

In the reference period, Latvia started to participate in the second generation of the **Community programmes** Socrates and Leonardo, as well as the new Youth programme (which incorporates European Voluntary Service activities) (*see section A.b - Relations between the European Union and Latvia*). The Youth International Programme Agency is responsible for implementation of this programme.

Given that Latvia had already transposed the **Directive on education of children of migrant workers**, no further legislative developments are to be reported in this respect.

As regards **reforming its education and training system**, the implementation of the 1998 Law on Education and the 1999 Law on Vocational Education and Training (VET) continued. In December 2000, the Law on Institutions of Higher Education was amended to provide for the implementation of higher education professional degrees and the possibility of students moving from academic to professional study programmes. In addition, several legislative acts setting national standards for vocational training, vocational secondary education and first-level higher professional education were adopted. Work also continued on implementing a unified state examination system in VET. The rationalisation of the VET schools network started in the capital Riga. A VET Council was set up in September 2000 with a view to improving co-ordination between the different actors involved and comprises representatives from the Ministry of Education and Science, the Ministry of Agriculture, the Ministry of Culture, and the Ministry of Welfare.

Overall assessment

Participation in the first phase of Community programmes has been satisfactory. The established national agencies are functioning. Latvian legislation is already in line with the necessary provisions of the *acquis*. The strengthening of the institutions involved as well as the improvement of the co-ordination amongst them should continue. The reform of the education system should also continue. The institutional capacity of the Ministry of Education and Science should be further improved as regards policy development and financial management. In addition, it will be important to upgrade the status and training of teachers and trainers with a view to raising the quality of VET.

The consistent and full implementation of the new National Qualification Structure established by the VET Law of 1999 still requires further resources and attention. Appropriate arrangements should be devised to promote co-operation between vocational schools and enterprises in order to develop the forms of training that are sought by the labour market.

Chapter 19: Telecommunications and information technologies

Little progress has been made since the last Regular Report in terms of alignment. The new regulatory body has begun its work.

Concerning the **liberalisation of the telecommunications market**, for the moment, further liberalisation of the fixed telecommunications market in Latvia remains uncertain. No new legislation has been adopted in this field.

As regards the **regulatory framework**, the Law on Public Services Regulators has been in force since June 2001. As foreseen, the new Public Services Regulation Commission created by the Law started operating in September 2001 and, in the field of telecommunications, took over the regulatory functions of the Telecommunications Tariff Council. The new regulatory environment is intended to ensure the independence of the regulatory body from telecommunications operators in compliance with EC requirements. The Regulatory Body will also be responsible for regulation of tariffs of postal services.

As regards information technologies, the government has approved a baseline for the socio-economic concept e-Latvia and the related Action Plan. The Action Plan generally is in line with the eEurope+ Action Plan drafted by Central and Eastern European countries (*see Chapter 3 – Freedom to provide services*).

As regards **postal services**, the legislation in the postal sector is now almost in line with the *acquis*, as amendments to the Postal Law were adopted in December 2000 with respect to the reserved services.

Overall assessment

Overall, there have been no major advancements in the telecommunications sector over the last few years.

Concerning the liberalisation of the telecommunications market, Latvia should seek to ensure that all possible steps are taken to abolish Lattелеkom's monopoly. The current monopoly provider, Lattелеkom, is 51% state-owned and 49% foreign-owned. The timetable for the abolition of the monopoly of Lattелеkom on fixed telecommunications and basic telephony services has not yet been clarified, except that according to a government policy plan, as well as commitments Latvia has made at the WTO, the telecommunications market will be fully liberalised as of January 2003, instead of 2013, as originally foreseen. A decision to privatise the remaining shares of Lattелеkom was taken by the government in October 1998, and before this can happen, the contractual basis of the monopoly must be renegotiated.

The new Law on Telecommunications, intended to transpose a set of core EC telecommunications directives and to achieve alignment concerning interconnection, authorisation and licensing, telecommunications network numberings, price regulation and universal service laws, is still pending in Parliament. The foundations laid by the new Law on Telecommunications, once adopted, will need to be built upon to resolve the remaining problems regarding alignment with the *acquis*, and particularly to ensure that those parts not temporarily blocked by continuing exclusive rights, are implemented in advance of liberalisation.

Rapid progress is also needed with the remaining pieces of secondary legislation that are required for the market to be opened. It will also be necessary to ensure that any mechanism for assessing the cost of providing the universal service identifies the real net cost, based on independently certified audits, and allows for a transparent determination of whether the

universal service obligation is an unfair burden on the designated carrier. Further developments in this regard are to be closely monitored.

For the moment, the Public Services Regulation Commission is supervised by the Ministry of Economy. The Latvian Privatisation Agency, which owns telecommunications shares, also falls under the supervision of the Ministry of Economy. A certain risk of a potential conflict of interests may thus exist. In addition to 5 persons on the decision-making board of the Commission, this body now needs to recruit the staff that will be needed under the new Law to carry out the regulatory functions required by the *acquis*.

As for postal services, Latvia has established a good legislative basis and should now adopt the relevant Community legislation, particularly with regard to tariffs, quality of service, separation of accounts and the scope of the reserved area. However, the independence and operational capacities of the regulatory body will have to be strengthened further.

Chapter 20: Culture and audio-visual policy

During the last year, Latvia reached a high degree of alignment with the *acquis*. On the administrative side, steps were taken to improve the sanctioning system administered by the National Radio and Television Council.

Concerning **audio-visual** policy, amendments to the Radio and Television Law with a view to further alignment with the Television without Frontiers Directive were adopted in February 2001. The amendments revised the jurisdiction criteria, rules on broadcasting of major events, as well as the definitions of broadcasting, broadcasters, independent producer, re-transmission, sponsorship and European audio-visual works.

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

Regarding administrative capacity, the National Radio and Television Council is the regulatory body in charge of ensuring compliance with the Law on Radio and Television as well as with freedom of speech and information. Amendments to the Administrative Violations Code were adopted in June 2001, providing the National Radio and Television Council with a legal basis to review and impose direct administrative fines. The Council issues broadcasting and retransmission permits, maintains a register of all broadcasting organisations and monitors the activities of broadcasting organisations. The Council consists of 9 members appointed by the Parliament and a Secretariat of 13 Persons.

Regarding **culture**, the capital city Riga, which celebrated its 800th birthday in 2001, was chosen as a city to host the European Cultural Month, for which events were organised in August and September 2001.

Overall assessment

To date, Latvia has advanced considerably towards alignment with the *acquis*. To complete the process as concerns the Television without Frontiers Directive, some elements of the Latvian Radio and Television Law need to be further refined. Secondary regulations also need to be adopted.

Latvia has ratified the Council of Europe Convention on Transfrontier Television and will be bound by its amending Protocol upon the date of entry into force.

On the administrative side, steps have been taken to strengthen the National Radio and Television Council. However, additional efforts are required to further reinforce the administrative structure and capabilities of the Council. Particular attention will need to be paid to strengthening the monitoring and sanctioning system.

The National Radio and Television Council began preparations to set up an Information Centre, which will disseminate information on the details of the legislation to the broadcasters.

The structures necessary to participate in Community activities in the area of culture are in place.

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

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

Concerning **territorial organisation**, the Government has decided to treat the whole territory as a single region corresponding to NUTS II level, split up in five regions which correspond to NUTS III level. These generally correspond to the five planning regions that have been set up in Riga, Latgale, Zemgale, Vidzeme and Kurzeme, whose exact borders have not yet been clarified.

As regards the **legislative framework** no new legislation has been adopted. In December 2000, the government adopted a conceptual document on the changes in the legislation necessary to implement structural adjustments for regional policy and co-ordination of EC structural funds.

Regarding **institutional structures**, in a decision of December 2000, the government acknowledged the need to ensure co-ordination among sectors, as well as between national and regional levels, and to establish an effective institution with an adequate capacity and mandate to deal with planning, programming and management of cohesion policy in the country. It also decided to reallocate resources from a number of institutions presently dealing with issues of regional policy and to include them in the Secretariat of the Minister for Special Assignment for Co-operation with International Financial Agencies, with the final aim of establishing a qualitatively new institution. However, in July 2001, the government then decided to entrust the Ministry of Finance with the task of managing the Structural Funds in the future. In line with the decision, the Ministry of Finance will be responsible for co-ordination of the national budgetary policy with the planning of EC Structural Fund intervention. The Secretariat of the Minister for Special Assignment for Co-operation with International Financial Agencies will be integrated, with its responsibilities, into the Ministry of Finance.

Also in December 2000, the government approved a conceptual document for the establishment of a National Regional Development Council (NRDC), in which several ministries as well as the chairmen of the Councils of the 5 planning regions are to be represented. It will ensure co-ordination of programming and implementation activities. The future Monitoring Committee for the Structural Funds will be established on the basis of the NRDC.

Concerning the **preparation of programming**, work on the drafting of a development plan as required in the Structural Funds Regulations continued. In February 2001, the government approved a Strategic Memorandum as a basis for the future National Development Plan, setting out guidelines and priorities. The National Development Plan Steering Group and the National Development Plan unit were reinforced to include representatives of the five planning regions. In May 2001, a National Development Plan Expert Group was created to provide qualitative comments on the work carried out by the National Development Plan Unit. Through the government's decision of December 2000, Latvia opted for Community assistance in form of a Single Programming Document (SPD).

No new developments regarding the introduction of the **partnership principle** are to be reported.

No progress has taken place as regards **monitoring and evaluation** since the last Regular Report.

In the field of **financial management and control**, starting from 2001, the planned financial resources of the EC assistance programmes (in future also the EC Structural Funds) have been included in the revenue heading of the State budget and in the expenditure headings of the respective programmes of ministries and other central government bodies. In April 2001, the government adopted Methodological Guidelines on Medium Term Budget Planning, stating that medium-term policy priorities would be integrated in the budgetary process as of 2002.

Concerning **statistics**, the compilation of regional data for analysis, evaluation and monitoring has continued.

Overall assessment

In the area of regional policy and co-ordination of structural instruments, to date, Latvia has only advanced little concerning legislative, institutional, structural and administrative issues. Most important, the administrative capacity of the units within the ministries to be designated as future Managing or Paying Authorities will need to be strengthened considerably in order to be effectively able to take on the responsibility for the efficiency and correctness of the management and implementation of Structural Funds.

As regards territorial organisation, the provisional NUTS classification allowing for an effective implementation of the Structural Funds still needs to be agreed with the Commission. The exact borders of the five planning regions, generally corresponding to NUTS III classification, still need to be clarified.

The legal framework for the future participation in EC Structural Funds should be established and adopted as a matter of priority, including provisions for management, monitoring, evaluation, financial management and control in relation to the practical implementation of the Structural Funds.

As regards institutional structures, following the decision of July 2001 to entrust the Ministry of Finance with the future management of the Structural Funds, the establishment of the necessary capacities, including the transfer and integration of existing structures, should be carried out as a matter of priority. A central specific European Social Fund responsibility needs to be defined.

The administrative structures and procedures, the distribution of responsibilities between the different national and regional partners and in particular inter-ministerial co-ordination, will require particular attention.

The Latvian authorities should urgently take a number of fundamental decisions on the implementation of the Structural Funds Programmes, most notably on the nomination of the managing authority and paying authorities for the future Single Programming Document.

As regards programming, Latvia will need to put serious efforts in strengthening its strategy capability and operational capacity to draw up and implement the National Development Plan, in order to transform it into a comprehensive national planning tool, which is developed in coherence with other strategy documents.

Furthermore, substantial efforts are required at the level of technical preparation of projects eligible for Structural and Cohesion Funds assistance (project pipeline).

At the same time, good partnership links and collaboration with the five planning regions (corresponding to NUTS III) have to be built up, as well as their role to prepare projects (project pipeline) of specific regional and local interest. However, so far, the five planning regions have little administrative capacity. Further attention is needed to ensure there is sufficient representation from economic and social partners and other relevant competent bodies.

Significant further work on ensuring compliance with the *acquis* requirements for monitoring and evaluation is still necessary, in particular as regards the *ex-ante* evaluation of the National Development Plan and the collection and processing of the relevant statistical information and indicators. The timely availability and functioning of an effective monitoring and evaluation system will be of crucial importance for the effective and efficient implementation of the Structural Funds programmes. No steps have yet been taken to establish such a system.

Concerning financial management and control, the budgetary system and procedures have to be improved to effectively implement pluri-annual commitments and management with a view to meeting Structural and Cohesion Funds standards. For co-financing, the way of allocating the appropriate level of co-financing required for the implementation of the Structural Funds still needs to be clarified. Latvia will have to comply with the specific financial management and control provisions as laid down in the *acquis* on regional policy and the co-ordination of structural instruments. Appropriate systems and procedures for financial management and control need to be established, in particular in relations to the structure of the managing and paying authorities, in order to fulfil the specific requirements of the Structural Funds regulations.

Concerning the European Social Fund (ESF), Latvia has only partially developed the necessary structures and operational arrangements to implement the ESF effectively. Substantial efforts are required to improve both the administrative capacity and the mechanism for co-ordination of ESF interventions in the context of the European Employment Strategy and the Inclusion Process.

Concerning statistics, the compilation of regional data needs to continue, and the quality and coverage should be further refined. The restructuring of the regional statistical system is a prerequisite for ensuring a further improvement of the statistical system.

Chapter 22: Environment

Since the last Regular Report, Latvia has continued to make progress in alignment with the *acquis*, in particular in relation to waste management, pollution, nature protection and nuclear safety. Concerning the administrative capacity, a Strategy and Information Unit has been set up in the Ministry of Environmental Protection and Regional Development and several specialised bodies have been established, including the Latvian Environment Agency, the Monitoring Council of GMOs, the Council of Packaging Management and the Radiation Safety Centre.

With regard to the **integration of environment into other policies**, Latvia continued to implement the action programme for sustainable development adopted by all Baltic Sea countries within the framework of “Agenda 21 for the Baltic Sea region”. The Ministry of Environmental Protection and Regional Development was reinforced by a Strategy and Information Unit that will attempt to give a long-term perspective for the environmental sector as well as working to integrate environmental issues into other sectors.

Concerning **horizontal legislation**, in May 2001, amendments concerning trans-boundary impact were made to existing legislation on Environmental Impact Assessment (EIA). The State EIA Bureau is the competent authority responsible for performing the duties arising from the EIA legislation. The Bureau has been reinforced in relation to the implementation of the Integrated Pollution Prevention Control legislation. Its permanent staff now numbers 16 employees. By April 2001, 16 EIA procedures had been initiated.

Access to environmental information and reporting falls under the responsibility of the Latvian Environment Agency, which was created following a decision of September 2000 to merge the Environment Consultation and Monitoring Centre and the Environmental Data Centre. During the first half of 2001, the Environment Agency started to implement an action plan, which includes the development of a long-term monitoring programme.

No new legislative developments concerning climate change or civil protection are to be reported. Four working groups have already been set up to cover climate change, water, nature protection and terrestrial environment and the creation of an effective indicator system.

Latvia’s legislation on **air quality** is largely in line with the *acquis*, and last year’s efforts were devoted to the implementation of the legislation. In June 2001, work began to create a national air quality monitoring network capacity, as well as to develop capacity for providing information on air quality to the general public and decision-makers. Regulations on the quality of petrol and diesel fuels were adopted, but still need to be amended further.

The institutions for the implementation of air quality requirements are in place. The Latvian Hydrometeorological Agency (LHA) is the competent authority for air quality assessment. The LHA and Latvian Environment Agency are responsible for approval of the measuring devices (methods, equipment, networks, and laboratories) and for analysis of assessment methods.

Further alignment with the *acquis* was achieved in the field of **waste management**, with the adoption of the Waste Management Law in December 2000. The Law entered into force in March 2001 and transposes the basic requirements for waste and hazardous waste. The adoption of the new Law also led to work to draw up a Waste Management Plan in line with the provisions of the relevant Directive. In July 2001, legislation on requirements for the incineration of waste and for the operation of waste incineration plants was adopted.

In line with Latvia's 'National Programme 500', which provides for the reduction of the municipal landfills from 500 at present to 12, 50 municipal landfills have been closed down.

In the field of hazardous waste, impact assessment work has started to select an appropriate site for the creation of a landfill for hazardous waste.

An institutional system to implement legislation in the area of waste management is in place. A Council of Packaging Management was established in December 2000. The Council evaluates programmes submitted by enterprises concerning collection of packaging waste and co-operates with NGOs working in the field of packaging management.

On **water quality**, the new Law on Pollution, which was adopted in March 2001 and entered into force in July 2001, determines emission limit values for industries and environmental quality standards, and sets basic principles in the water sector for pollution prevention and control. At present, projects to improve drinking water quality have been completed in 10 towns.

Regarding **nature protection**, a number of legislative acts were adopted in the first half of 2001, including provisions on establishment, protection and management of microreserves; on issuing permits for introduction, reintroduction and capturing of individuals of non-huntable species and on compensation for damage relating to the extermination or impairment of individuals of specially protected species and specially protected habitats. In addition, in May 2001, legislation to align with the *acquis* requirements concerning keeping animals in captivity in collections of wild species and the creation of collections of wild species was adopted.

With the entry into force of the Law on Pollution in July 2001, progress was made in the area of **industrial pollution control and risk management**. The law introduces procedures for issuing integrated permits, including permits for control of emissions into air, water and soil. In June 2001, secondary legislation concerning procedures for prevention of risk of industrial accidents, along with risk reduction measures, was also adopted. The Environmental Impact Assessment (EIA) Bureau is the competent authority responsible for implementing the legislation. In order to carry out the tasks related to Integrated Pollution Prevention Control (IPPC), the Bureau recruited three additional persons in 2001. Industrial activities now have to receive permits issued by the Environmental Regional Boards, and the EIA Bureau will act as an appeal body for permits. It will also be the central institution responsible for Best Available Techniques information and a permits database. During the first half of 2001, the Environmental Regional Boards' staff received training to perform duties related to IPPC.

Regarding **chemicals**, amendments to the Law on Chemical Substances and Chemical Products, transposing EC requirements on databases of chemical substances and products, were adopted in December 2000.

On **GMOs**, regulations for the use and distribution of genetically modified organisms came in force in October 2000. They lay down general requirements for the contained use, deliberate release into the environment, and placing on the market of GMOs, with a view to preventing harm to human health, animals, biological diversity, property and the environment. For technical advice, the Monitoring Council of GMOs was established in September 2000. The Council is a co-ordinating and consultative institution providing advice and information with regard to the prevention of dangers from GMOs.

No specific developments can be noted regarding alignment in the area of **noise from vehicles and machinery**.

Regarding **nuclear safety and radiation protection**, a new Law on Nuclear Safety and Radiation Protection entered into force in November 2000 (*see Chapter 14 – Energy*). The status of the Radiation Safety Centre was agreed upon in May 2001 and the centre began operations in July 2001. The Centre has 31 full-time employees and is responsible for the supervision and control of radiation safety, inspection, the establishment and maintenance of databases on exposures, radiation sources and radiation workers, the preparation for operational emergency situations and the delivery of information and training. Administrative penal law and the criminal law have been amended to allow the Centre to enforce the legislation.

Overall assessment

At present, Latvian legislation is partially in line with the *acquis*, and the transposition should continue in all sectors, along with preparations to ensure the effective enforcement of the new legislation. Particular efforts are required in the fields of waste management, water quality and chemicals.

For horizontal legislation, alignment needs to be completed for access to environmental information, and further efforts need to be made to improve the quality and compatibility of the existing databases.

In the individual sectors, the process of alignment needs to be completed. The transposition in the field of water quality needs to be completed, including the transposition of the Framework Directive and the Urban Waste Water Treatment and Drinking Water Directives.

Concerning waste management, a collection system for accumulators has been in place for some time, whereas a collection system for household batteries has only recently been set in place. There is a need to ensure that priority is given to regeneration of waste oils. At present, all waste oils collected in Latvia are incinerated. A detailed survey of sources for PCB/PCT is also needed. A significant number of secondary regulations still need to be adopted. These regulations should deal with waste classification, landfills and the introduction of provisions for issuing permits for waste collection, storage and transfer.

Concerning nature protection, further work is still needed to transpose the Birds and Habitats Directives.

On nuclear safety and radiation, alignment is well advanced, but secondary regulations transposing certain EC and international requirements still have to be adopted. Concerning radiation protection, one of the major implementation problems remains the quality of the equipment used in medicine as well as education and training in the field.

Significant further efforts will be necessary to ensure the enforcement of the environmental *acquis* in Latvia. Areas requiring particular attention include waste management (in particular packaging and packaging waste and hazardous waste, including PCBs/PCTs, waste oils, accumulators and batteries), water quality (in particular urban waste water, drinking water, establishment of pollution reduction programmes for List II substances, and designation of

vulnerable zones under the nitrates directive) and air quality (storage and distribution of petrol). Regarding nuclear safety and radiation, the inspection functions previously entrusted to the Environmental State Inspectorate must be transferred to the newly created Radiation Safety Centre. One of the major implementation problems concerning nuclear safety and radiation remains the outdated equipment used in medicine. New equipment, education and training are required.

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

In addition and in parallel to the special requirements for the implementation of the individual areas of the environmental *acquis*, efforts should continue to strengthen the overall administrative capacity at national level, regional and local level. Particular attention needs to be paid to nature protection and the enforcement capacity of the Environmental Protection Inspectorates at local level. The review of the division of labour between the different institutions in charge of inspection may lead to a better rationalisation of work and resources in this field.

Concerning the **investment** efforts necessary to meet EC standards, compliance with the Urban Waste Water Treatment Directive is estimated to cost €526 million, the Drinking Water Directive €451 million and the maintenance cost for both Directives would be around €218 million. Compliance with the IPPC Directives' requirements for existing enterprises is estimated to necessitate investments of the magnitude of €714 million. Considerable investments need to be secured, also in the medium-term, to ensure implementation of the environmental *acquis*.

Chapter 23: Consumers and health protection

During the reference period further progress was made in terms of legal alignment. Latvia has also continued to build up its administrative capacity in this field.

No important developments concerning **safety and non-safety related measures** are to be reported.

The Consumer Rights Protection Centre is the main body responsible for the implementation and enforcement of the *acquis* on market surveillance and operates under the supervision of the Ministry of Economy. In addition, the Consumer Rights Protection Division within the Ministry of Economy carries out policy co-ordination functions.

Additional resources (€ 87,755; 49,080 LVL) were allocated for the first time in 2001 for setting up regional offices of the Consumer Protection Centre in major cities of Latvia, as well as for a Division for surveillance of advertising and a Legal division for dealing with unfair contract terms.

In 2001, the number of staff of the Centre was increased by 10 new employees (in 2000, the number of employees was 34). Three regional offices of the Consumer Protection Centre were opened in July 2001, and an increase in the number of regional offices to at least 10 is planned. The officials of the Consumer Rights Protection centre have been trained through several technical assistance programmes, as well as in the Latvian School of Public Administration.

In 2000, the Consumer Rights Protection Centre was admitted to the international consumer rights protection organisation 'Consumers International', and also continued to act as the

contact point for the exchange of information on dangerous products with other candidate countries through the Transitional Rapid Exchange of Information System (TRAPEX). In 2000, it also joined the International Market Surveillance Network (IMSN). The Centre handled 609 written complaints from consumers in 2000, as well as 7,505 consultations on questions from consumers. By September 2001, 367 written complaints and 4,777 consultations had been carried out since the beginning of the year.

A number of activities were carried out to strengthen the **market surveillance** system. In December 2000, the Market Surveillance Council was established. The main function of the Council is to promote a uniform approach to market surveillance, co-operation among the market surveillance authorities in respect of unsafe products and services, and to promote the distribution of competencies among market surveillance authorities in order to ensure surveillance of all products and eliminate duplication of functions (*see Chapter 1 – Free movement of goods*). In order to set uniform rules for sampling by market surveillance authorities, regulations ensuring a strict procedure for collecting and analysing samples were adopted.

The development of the non-governmental consumer organisations has continued, and their role in the protection of consumers and the promotion of general awareness of consumer rights has continued to increase. The Latvian Consumer Organisations Association (established in 1999) carried out several different activities in the interests of consumers. At present, the Association consists of 10 regional organisations – eight consumer protection clubs and two landlords' and tenants' associations.

In addition to a widely used website established last year, assistance, consisting chiefly of legal advice on complaints concerning quality of goods, was provided to 612 consumers (578 in 1999). A specific information tool for consumers on 5 different consumer-related issues, Infothek, was prepared with the assistance of the Consumer Rights Protection Centre and is now available in all non-governmental clubs, as well as from other locations. To date, the Centre has not received any complaints concerning advertising.

Overall assessment

With the adoption of the Law on Consumer Protection in March 1999, Latvia now has a general consumer protection system which is broadly in line with the *acquis*, but still requires further efforts in the area of institutional set-up and functioning, despite the positive developments which have taken place.

Regarding alignment, further adjustments of existing legislation are still needed to fully align to the *acquis*, both in the field of safety and non-safety related measures. Further alignment is also needed in the areas of guarantees and injunctions for the protection of consumer's interests.

Compared to alignment, enforcement of legislation remains much less advanced. Some major problems remain regarding the institutional set-up for the protection of consumer rights and the market surveillance mechanism. The effectiveness of market surveillance in Latvia in general remains relatively weak, in particular in the regions. Further progress with market surveillance in Latvia will require that institutions responsible for market surveillance, notably the Consumer Protection Centre, the Consumer Rights Protection Division and the Market Surveillance Council, receive adequate resources/funding.

In particular, the Consumer Rights Protection Division in the Ministry of Economy should be strengthened so as to be able to fully exercise its extensive policy co-ordination functions. In addition, the Consumer Protection Centre should continue to pay attention to risk evaluations using statistical information as a basis for its control activities, and should ensure that a clear, consistent and coherent system of decision-making is applied, in particular in cases of violations. Its capacity needs to be strengthened, including for sample testing. Moreover, the market surveillance system in Latvia should be planned and developed in close co-operation with other EU member states and neighbouring countries in order to take advantage of economies of scale.

The improvement of the consultative structures representing consumer interests in the policy decision-making process requires particular attention. The establishment of a Consumer Council, which would act as an advisory body to the government, would be a good step to improve the situation.

Overall, consumer and producer awareness still needs to be enhanced regarding their respective rights and responsibilities. All Consumer Health Institutions need to be upgraded in terms of training and equipment, and the legal professions need to become more familiar with product liability related cases. The role of consumer organisations should be further promoted by the government.

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

Since the 2000 Regular Report, progress has been made in Latvia in the fields of data protection, visas and preparations for the implementation of the Schengen *acquis* and border control. However, less progress can be reported on drugs, money laundering, police co-operation and the fight against fraud and corruption.

As regards **data protection**, the State Data Inspectorate, established under the Law on Personal Data Protection of March 2000, started operating in January 2001. Furthermore, the 1981 Council of Europe Convention on the Protection of Individuals with regard to the Automatic Processing of Personal Data was ratified in April 2001.

As far as **visa policy** is concerned, progress has been made in amending visa-issuing procedure regulations which specify the conditions for refusal of entry. In 2000, bilateral agreements on a visa-free regime were concluded with Israel, Japan and Cyprus. At present, visa-free regimes have been established with 32 states. The establishment of the transit zone at the airport was completed in August 2001.

With a view to aligning with the *acquis*, Latvia has denounced the agreement with Russia on a simplified border crossing procedure for inhabitants of the frontier area. Since October 2000 the special permits have been replaced by free-of-charge visas for local residents. Since November 2000, border guards have been carrying out checks on transit trains throughout Latvia and in March 2001, a decision was adopted to denounce the agreement with Russia on transit train passengers crossing the territory of Latvia.

As regards administrative capacity, visa matters are managed by the Department of Citizenship and Migration Affairs (DCMA). Since January 2001, the Unified Visa Information System has been operating online with diplomatic consulates abroad and, machine-readable visas are currently issued at 29 diplomatic and consular representative offices. Visas cannot be issued at

border crossing points with the exception of Riga Airport where the DCMA can issue visas to citizens of the “white list” countries (in 2000, 3% of the total number of visas issued were issued at the airport).

Progress has been registered in alignment with, and implementation of, the *acquis* in the field of control of **external borders** and as regards the preparation for the implementation of the **Schengen *acquis***. In March 2001, Latvia adopted a State Border Guard Development concept document for the years 2001-2005 with a view to ensuring effective control of the future EU external borders. The programme envisages, *inter alia*, legislative developments, measures for the development of infrastructure, as well as the capacity-building for the border guard, improvement of staff qualifications and co-operation between all bodies involved in border management with the aim of ensuring Latvia’s complete alignment.

An Action Plan on the implementation of the requirements of the Schengen *acquis* was adopted in May 2001. A further developed Action Plan, with a particular focus on the Schengen Information System, was adopted in early October 2001.

Work on the establishment of an integrated border control system has continued through the adoption of regulations aiming at the clarification of responsibilities of the State Border Guard, now responsible for the entire border, and co-operation with the Navy in this respect.

Over the reporting period, the development of the state border (upgrading of border posts and green-border and telecommunication infrastructure) has continued in terms of infrastructure work as well as the provision of equipment. Work on developing the automated registration and processing of persons and vehicles crossing borders continued as well. At present, computerised border control software (REIS) is being implemented.

Latvia has completed the restoration and accompanying demarcation of the Latvian-Lithuanian border as well as its part of the work on the demarcation of the Latvian-Belarus border.

As regards administrative capacity, measures have been taken to strengthen the Border Guard as part of the Border Guard Development Concept for the years 2001-2005. Co-operation between the Border Guard and the Customs and Sanitary Border Inspectorate in particular has been somewhat enhanced in order to increase the integrity of border controls. Action plans for emergency situations on the border have been developed. Particular attention has been paid to ensuring close co-operation between Border Guard and Customs and State Police in the context of combating drug-related crimes.

Training at the Border Guard School has continued, with 2339 border guards were trained since 1997. Substantial funding for upgrading and enlarging the school has been provided. A 2-year language training course for 300 border guards also started in 2000. A rapid- reaction unit to be used in emergency situations was established at the end of 2000 and 30 staff were trained and given full equipment. In addition, 60 border guards have received training on risk assessment.

As regards **migration**, Latvia has continued to work on legislation to bring its policy further into line with the *acquis*. With the adoption of the regulation on the Procedure of Residence Permits Issue and Registration in May 2001, the procedures for obtaining residence permits for entrepreneurs and representatives of foreign enterprises have been simplified and the number of documents to be submitted has been reduced. To improve the capacity of Latvian law-

enforcement agencies to combat illegal immigration, the creation of the Immigration Service within the State Border Guard is under-way. The reform aims to introduce a unified surveillance system for foreigners and more efficient use of personnel and funds.

In the field of **asylum**, steps for further alignment have been taken, but no new legislation has yet been adopted. Latvia has organised a number of training seminars together with international organisations, also covering issues like accelerated procedures for asylum applications, safe countries of origin and the “safe third country” concept amongst others. In order to collect information on the country of origin of asylum seekers, a computerised archive has been established in the Refugee Affairs Centre.

In the field of **police co-operation and the fight against organised crime**, the Parliament ratified the United Nations Convention against Transnational Organised Crime in May 2001. Consultations were started on conclusion of a co-operation agreement with Europol. This preparatory work is focused on data security and protection issues.

Latvia's authorities have introduced several modifications in the central administrative structures which aim to improve international police co-operation, the fight against computer crime and cybercrime and the fight against smuggling and trafficking in human beings. Co-operation agreements on the fight against terrorism, illicit drug trafficking and other forms of organised crime have been concluded with several countries.

In order to enhance intelligence work carried out by the Organised Crime and Corruption Enforcement Bureau of the State Police, police bodies, supported by the Information Centre of the Ministry of Interior, are now connected to the National Data Transmission Network and have on-line access to information about any kind of illegal activities.

The upgrading of law-enforcement bodies has continued with special focus on the fight against modern forms of crime. A division for the fight against computer crimes was established in May 2001 in the Economic Police Bureau. To strengthen the capacity to combat trafficking in human beings, as well as sexual exploitation including child pornography, 16 additional staff were allocated to the special Vice Squad unit within the State Police.

Particular efforts have been registered in 2001 as far as training of State Police officers is concerned, including under Community assistance and through bilateral co-operation.

As far as the **fight against fraud and corruption** is concerned, the 1999 Council of Europe Criminal Law Convention on Corruption was ratified in December 2000. Some progress can be reported as regards the institutional set-up of a framework to fight fraud and corruption, and new legislative instruments are being developed, but few visible results concerning the implementation of the polices adopted have been observed so far. In May 2001, the government adopted a new Corruption Prevention Programme.

In order to ensure a co-ordinated approach to fighting corruption in the law-enforcement bodies, a Strategy for fighting corruption among public officials has been established by the State Police. In Latvia, a number of bodies, including the Security Police, play a role in fighting corruption in law enforcement and other state institutions. (*see also Section B.1.1. - Democracy and the rule of law*).

In order to prevent both supply of and demand for **drugs**, amendments to the Criminal Law which aim at increasing the criminal liability of individuals selling narcotic and psychotropic substances to minors entered into force in June 2001. The amendments also introduce criminal liability, including sentences, for illegal purchase or storage of small quantities, as well as use of narcotic substances without the recommendation of a physician. Supervision of the Drug Control and Drug Abuse Combat and Co-ordination Commission has been transferred to the Prime Minister in order to reinforce the role of all ministries involved apart from the Ministry of Interior.

Some progress has been made in the number of cases of drug abuse detected, notably with regard to activities carried out in co-operation between district units and the Municipal Police.

The Drug Enforcement Bureau (DEB), responsible for the implementation of the drugs strategy, has also been involved in organising training activities for Police, Border Guards and Customs officials as well judges (60) dealing with drug-related issues. In 2000, the administrative capacity of the DEB, including its 5 regional offices, has been strengthened (now 68 staff) and a Riga Drug Prevention Centre has been opened.

As regards **money laundering**, the legislative basis in the area of prevention of money laundering is broadly in line with the *acquis* (see also Chapter 4 - *Free movement of capital*). In 2000, the list of predicate offences was extended from 31 to 40, including tax evasion. In March 2001, amendments to the regulations on mandatory reporting about unusual transactions entered into force, which require in particular to inform the Financial Intelligence Unit about 'risk transactions', which are likely to be linked to money laundering. For instance, they provide for the reporting of all currency exchange transactions of €8900 (5000 LVL) and upwards.

With regard to **customs co-operation**, no new developments can be reported.

As concerns **judicial co-operation**, the Judicial Co-operation Division in the Ministry of Justice was established in January 2001 to strengthen international judicial co-operation. The Division is responsible for co-ordination of international correspondence in the framework of ratified Treaties and Conventions and operates in close co-operation with the Prosecutor General's Office and the Ministry of Interior.

Overall assessment

Overall, Latvia has advanced in addressing the main shortcomings in this field. Particular efforts are, however, still necessary as regards the implementation and enforcement capacity.

The ratification of the 1981 Council of Europe Convention on the Protection of Individuals with regard to the Automatic Processing of Personal Data as well as the setting-up of the State Data Inspectorate are positive developments in the field of **data protection**. Progress will, however, have to be sustained in order to further develop the capacity of this young institution and particularly regarding its independence. In addition, legislative amendments will have to be made to the Law on Personal Data Protection as well as to various related pieces of legislation in order to allow for its proper implementation, including its applicability to the law-enforcement agencies and particularly the police. Furthermore, Latvia still has to close gaps relating to access to and security of personal data from Member States' citizens, especially with a view to

alignment with the Europol and Schengen *acquis*, including designation of a national data protection supervision authority for the Schengen Information System in due time.

Latvia has continued to advance in aligning its **visa policy**, introducing a visa-free regime with several further countries and terminating existing visa-free regimes where required.

Regarding the Unified Visa Information System (UVIS) some border crossing points still need to be connected with the online system.

In order to improve identity checks and the detection of attempts to misuse visas, it is still necessary to prepare for the application, upon accession, of the regulation on the uniform format for visas and complete the connection of the query system at border crossings to a central database. Visa offices throughout the country will also gradually have to be equipped with a similar system. The capacity to detect falsified documents will have to be enhanced. The issuing of machine-readable visas needs to be completed, along with equipping of all divisions of the Department of Citizenship and Migration Affairs with printing machines.

As regards **external borders** and preparations for **Schengen**, the strengthening of border control, especially at the Eastern border remains a priority for Latvia. Despite the encouraging decision taken to extend the responsibility of border guards to the entire border, the management of the border continues to suffer from the lack of an integrated approach, as numerous institutions remain involved. Legislative amendments necessary to implement the decision should be taken without delay. Particular attention will also have to be paid to continuing the restructuring of the border guards and to further improve relations between customs officials and border guards.

Despite encouraging steps taken, further attention needs to be paid to training, as not all border guards have passed through training at the Border Guard School. The School itself should be given additional capacity. Despite the increased efforts and improved equipment, the capacity of border guards in the seizing of drugs still remains low. Intelligence work should be strengthened, and co-operation with the State Police should improve. The anti-Smuggling Centre should be made a priority. The fight against trafficking in stolen cars has seen some improvements, but further co-operation with Europol is needed.

As regards computerisation, all border control and crossing points should be operating on-line and be connected to the National Data Transmission Network and to the central database. The creation of the State Border Guard electronic information system RAIS for the collection and exchange of operational information needs to be completed.

Technical controls at official border crossing points are working without major difficulties, but controls along the green/blue borders are clearly still inadequate to deal with illegal immigration. There is a particular need to improve equipment available for the surveillance of the blue border. There is also a need to introduce a sea surveillance system allowing for control of nearby waters as well as a need to build up a harbour surveillance system at the main harbours and to complete the on-line electronic system (REIS) at smaller ports.

Generally, the establishment of a comprehensive strategy is still required. Latvia furthermore needs to complete the equipping of its border crossings with technical devices for the detection of falsified and counterfeit documents. This will help prepare Latvia for future participation in the envisaged False and Authentic Documents (FADO) system.

Legislation on **migration** is broadly in line with the *acquis*, but should be further aligned through the adoption of a new Immigration Law to address the remaining shortcomings.

There are now readmission agreements with Austria, Benelux, Croatia, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Italy, Liechtenstein, Lithuania, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland and Ukraine, but agreements with Bulgaria, Hungary and Poland have not entered into force yet or are being negotiated. Latvia is currently renegotiating the readmission agreement with the other Baltic States in order to bring it in line with the *acquis* requirements. It is also encouraged to ratify its outstanding readmission agreements and sign further agreements with Member States, candidate countries and third countries like Belarus and Russia.

As regards implementation, during the year 2000, the number of persons expelled was 237. During the first five months of 2001, 86 persons were expelled, so the number of expulsions appears to be decreasing. In mid-2001, there were 27 people in the illegal immigrants detention centre in Olaine. The second centre is undergoing complete renovation. In general, illegal immigration does not seem to be a particular problem in Latvia at present, but the situation at the detention centres needs to be improved regarding the separation of convicts from expelled and illegal migrants, reduction of the escape rate and waiting times before judgements. Training and awareness raising for immigration police officials should be stepped up, including training on organised illegal trafficking.

In the field of **asylum**, legislation largely complies with the *acquis*. The envisaged new Law on Asylum should address the remaining gaps of the present law. Particular attention should be paid to the short deadlines imposed by the accelerated procedures at the border in order that asylum seekers can enjoy their full rights as well as to tackling the currently long detention pending expulsions for asylum seekers whose applications have been rejected, an issue which will require additional legislation.

As regards the administrative capacity, the situation is characterised by a lack of experience with asylum seekers. Despite the presently small number of asylum seekers in Latvia, co-ordination and co-operation among institutions will need to be improved. This requires further drafting of internal working regulations, enhanced training of border guards as well as migration IT and adequate data protection to allow Latvia to comply with the requirements of the Dublin and EURODAC Conventions.

As far as administrative capacity is concerned, both the number and training of staff should be increased in order to maintain a reasonable average length of procedure.

Since 1998, 87 persons have applied for asylum 7 of them have been granted refugee status. In 2000, the main countries of origin were Russia, Belarus and Azerbaijan. The asylum reception centres work under acceptable conditions but their capacity will have to be increased.

In the field of **police co-operation and the fight against organised crime**, good progress has been made in acceding to the relevant international regulatory instruments and establishing a legal basis for co-operation with member states, neighbouring and other countries in the fight against various forms of organised crime, including the establishment of institutions to address new forms of crime more effectively. However, further work on the alignment with the *acquis* is required. Latvia will need to ensure that the pre-requisites for the conclusion of a co-operation

agreement with Europol are met. As regards implementation, police efficiency and relations between the police and the public have been addressed, but need to be further improved. Police structures still need to be further streamlined and made more effective in combating illegal immigration, corruption and organised and economic crime. A multi-agency strategy or mechanism is necessary to achieve results in the fight against organised crime. The capacity in intelligence analysis and the effective detection of cases of product piracy, smuggling, trafficking in drugs and human beings especially needs to be further developed. Latvia's training programme seems to be very ambitious, but should involve all levels and structures of the police. Although the situation has slightly improved, the recruitment of qualified staff for specialised services is hampered by low salaries and poor working conditions.

All police bodies have access to the national police databases which will be also used for the national Schengen Information System at a later stage, but there is a lack of modern technical equipment and suitable premises.

Regarding the **fight against fraud and corruption**, some progress on corruption issues has been achieved through further alignment with international anti-corruption instruments. Latvia has continued to be active in establishing a complete and comprehensive framework programme to prevent corruption on a broad scale. A strategy to fight corruption among public officials has been established. However, these activities have only just started and in the light of the inherent complexity of the existing conditions which foster corruption as well as the many hindrances to preventing corruption outside of the more narrowly defined task of the bodies involved, there is still little visible achievement

As a result, efforts to implement the strategy and related initiatives, including the development of new legislative instruments, have to be pursued with vigour in order to achieve meaningful results on a broader scale. Latvia also needs to ratify outstanding Conventions in this field. The Council of Europe Civil Law Convention has not yet been signed. In addition, the amendments to the Criminal Code, the new (and not yet adopted) Criminal Procedure Code and a new Law on Public Procurement should also help to improve the situation. Greater efforts are needed to create an efficient implementing capacity with specialised and qualified staff and improved inter-institutional co-operation in this area. Special attention should be paid to the persistently wide range of institutions which perform functions in the field of prevention and the fight against corruption, by effectively addressing their still scattered competencies, fragmentation, duplication of functions, lack of specialisation and prioritisation as well as isolation in performing different functions. An effective judiciary, sufficiently specialised and supported by adequate investigation capacity to allow a smooth and integrated approach to the prosecution process, is also important.

In order to ensure the protection of the financial interests of the European Communities, Latvia should continue to align its legislation with the 1995 Convention on the Protection of the Financial Interests of the European Communities and its Protocols.

Latvia is party to the main international conventions listed under the *acquis* in the field of **drugs** with the exception of the 1995 Agreement on Illicit Traffic by Sea. In addition, Latvia has continued to implement its Drug Control and Drug Prevention Strategy for 1999-2003 covering both drug demand and drug supply reduction. However, drug-related crime remains a significant problem in Latvia; the number of drug users has increased consistently over the last 4 years.

Further efforts are required to improve the collection and availability of information on drug-related issues and to set out a supply reduction strategy with clear priorities and performance indicators. The creation of the National Drug Information Focal Point, in accordance with EMCDDA (European Monitoring Centre for Drugs and Drug Addiction) requirements, should be completed. Particular attention is to be paid to ensuring regular updating of the drug strategy and further strengthening of the intelligence collection capacity and risk profiles within the Drug Enforcement Bureau. As the detection rate at borders is minimal, particular efforts have to be made to strengthen the abilities of Customs and Border Guards in this respect. Their representation in the Drug Enforcement Bureau seems to be necessary in order to ensure an effective multidisciplinary framework.

As regards **money laundering**, the enforcement of current legislation needs to be improved considerably. Indeed, current control and repression of fiscal fraud, bankruptcy, money laundering, corruption and common economic crimes still appears to be largely ineffective.

The institutional development of the Financial Intelligence Unit (FIU) operating under the supervision of the Prosecutor-General is continuing according to the Action Plan (1998-2002). At present, there are 13 employees at the FIU, which has been fully computerised and enabled to carry out data input and search, checking for positive matches in the FIU database and external databases, creation and displaying of data schemes and statistical data on disclosure information. In order to strengthen the administrative capacity, particular attention was paid to training in 2000. The FIU plays a central role as it examines suspicious cases, but only reports to Parliament upon request and is without any investigation power. The limited results achieved so far indicate that police and judicial efforts in money laundering cases need to be improved, procedures accelerated and training on risk assessments notably with regard to insurance and gambling enhanced. There are also many different government institutions involved in anti-money laundering, and insufficient co-ordination between them.

Latvia's legislation is, to a large extent, in line with the *acquis* in the field of **customs co-operation**, but there are still some matters of concern. No formal, comprehensive Memorandum of Understanding programme exists in this field. Corruption is still a problem. Risk analysis should be further developed. The co-operation between Customs Administration and Immigration Police is being developed but should be further improved with the Border Guards. Work on an integrated database used by all authorities concerned should be enhanced. Further, preparations need to start for participation, upon accession, in the Naples II Convention on Mutual assistance and Co-operation between Customs Administrations and the CIS Convention on the Use of Information Technology for Customs Purposes.

As far as **judicial co-operation** is concerned, Latvia has ratified nearly all the international conventions included in the *acquis*. On civil matters, the Convention on International Access to Justice still has to be ratified as well as the Hague Convention of October 1980 on the Civil Aspects of International Child Abduction. On criminal matters, Latvia has not yet acceded to the European Convention on the International Validity of Criminal Judgements. The definition of a criminal organisation will have to be reviewed in order to comply with the December 1998 EU Joint Action, making it a criminal offence to participate in a criminal organisation. Latvia should also start preparation for judicial co-operation under the Convention for the protection of EC financial interests .

Latvia has joined all the relevant Conventions of the Council of Europe. Latvia has signed bilateral agreements on judicial co-operation with nine countries

Amendments to the Criminal Law are also awaited as regards combating trafficking in human beings and sexual exploitation of children, and criminal liability of legal persons. In addition, further changes to the Code of Criminal Procedure and a new Law on Criminal Procedure, will have to be made to further develop internal procedures for mutual legal assistance, extradition, transfer of proceedings as well as new methods of co-operation. Reinforcement is still needed in judicial co-operation, notably regarding the Ministry of Justice and the Prosecutor-General's Office. This suffers from insufficient manpower, lack of equipment (computerisation of statistics) and bureaucratic obstacles. With a view to a future increase in in-coming and out-going requests, further training, including training in foreign languages, is also necessary.

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

Chapter 25: Customs union

Good progress has been achieved by Latvia in the field of customs since the last Regular Report, including further alignment with the EC Customs Code and its implementing provisions and the *acquis* outside the Customs Code, and several steps to strengthen the customs administration.

As regards alignment between Latvian legislation and the **EC Customs Code and its implementing provisions**, the Customs Law was last amended in March 2001, with a view to ensuring full compatibility as regards Binding Origin Information, free zones and free warehouses, customs debt and the repayment and remission of duties. These provisions will come into force in July 2002 together with the respective implementing regulations. Minor amendments on outward processing and on customs value entered into force in July 2001. A regulation on temporary importation entered into force in October 2000.

A significant step towards accession to the Convention on a Common Transit Procedure was the entry into force of the Common Baltic Transit Agreement in January 2001.

Regarding the **customs *acquis* outside the Customs Code**, Latvia has adopted a number of important regulations regarding duty relief, EC Integrated Tariff (TARIC) and issuing of guarantees in the field of transit.

As far as the **administrative and operational capacity** to implement the *acquis* is concerned, progress can also be noted. In October 2000, the Customs Control Strategy was adopted; it aims to develop a common and effective customs control system providing for separation of customs control and customs service functions. Latvia has continued to modernise the customs services of the State Revenue Service (SRS) and to rationalise the organisational structure with a view to reducing the number of regional offices from 22 to 5. The situation has also improved in the area of human resources. The personnel turnover in the SRS decreased to 6% in 2000 and the level of education in Customs has increased. A system of rotation of officials exposed to areas of high risk of corruption has been introduced. The Internal Audit Division has started the development of a Quality Management System at customs offices. In order to fight corruption, a video-monitoring system is in place at all major customs points, and an on-line connection with

a video centre at the National Customs Board is being developed. Enforcement has also been strengthened in the context of the implementation of the Customs Control Strategy.

The use of risk analysis by anti-smuggling divisions has improved.

In the area of intellectual property rights protection, regular training of customs officers is taking place in co-operation with representatives of brand owners (*see also Chapter 5 - Company law*). In this field, close co-operation between Customs and the Economic Police, which is based on a Memorandum of Understanding, has continued.

Efforts have also been undertaken regarding the control of the legal circulation of psychotropic substances and precursors. Customs officials have also been trained in the context of the implementation of the Latvian Code of Customs Ethics.

Regarding trade facilitation, Latvian Customs has concluded 4 Memoranda of Understanding with private companies since the last Regular Report; these aim to create a framework and improved co-ordination to combat smuggling and fraud without hindering the flow of legitimate commercial traffic.

A manual on simplified customs procedures was published in May 2001 and a Customs Consultation Unit was established in January 2001. In order to inform end-users, 15 sections of the manual on Customs procedures, as well as the TIR (Transport International Routier) and ATA (Temporary Admission) manuals, are now available on the State Revenue Service Internet homepage. In addition, a central telephone help/hot line started operating in September 2001.

The ASYCUDA computerised customs information system has been brought into use at all customs offices outside Riga, while its implementation in Riga has started. Meanwhile, several customs control points have been closed in Riga. At present, 65% of all customs declarations are processed using ASYCUDA. All customs warehouses have been connected on-line to the customs information system over the past year.

Work has also continued to further develop customs IT systems by issuing authorisations to lodge customs declarations by electronic means via the internet. The arrangement presently operates at 22 customs control points, and about 15% of declarations are presented electronically. Registration of electronic applications for inward and outward processing authorisations has been started. Only limited progress has been achieved in ensuring the full interconnection of the national systems with the EC customs IT systems.

In relation to border management, Latvia has continued its efforts, particularly on the eastern land borders which will become the future EU external border. A substantial part of the works for the construction of a border control facility at the land border crossing has been completed. However, these facilities now need to be properly equipped.

Overall assessment

Although Latvia has already achieved a considerable degree of legislative alignment in the field of customs, this process now needs to be completed.

In particular, Latvia should complete alignment as soon as possible, with implementing provisions and instructions ensuring full compliance with the EC Customs Code and its

implementing provisions. Latvia should also aim to accelerate adoption of missing implementing regulations and ensure adequate preparation for the entry into force of the *acquis* in the field of autonomous tariff quotas, tariff ceilings and suspensions as well as for the introduction of a Generalised System of Preferences (GSP) scheme. For this last issue, the provision complies with the *acquis* as it stood in 1999.

As regards administrative and operational capacity to implement the *acquis*, Latvia should continue its efforts, notably as regards the completion of customs control points (including laboratories), the improvement of border management and combating irregularities and corruption within the customs administration, improved capacity for risk assessment, intelligence and investigations. Efforts to implement the customs ethics policy need to continue.

The restructuring of Customs services is ongoing and particularly important. With regard to IT development, it must be emphasised that flawlessly functioning EC-compatible IT systems should be in place at least one year before EU accession in order to guarantee interconnectivity with the EC Customs computerised systems.

Latvia should continue its efforts to reduce waiting times at the borders, to combat customs fraud and economic crime, in particular concerning smuggling and counterfeit goods, and to improve co-operation with other enforcement bodies.

Chapter 26: External relations

Since the last Regular Report, Latvia has continued to align with the *acquis* in relation to the common commercial policy and to co-ordinate positions and policies within the World Trade Organisation (WTO) with those of the EU, in particular with regards to the preparation of the New Round.

As regards the **common commercial policy**, upon accession, Latvia will be required to align its tariffs with the Common External Tariff (CET). Latvia's applied tariffs currently average 4.5 % on all products, 13.5 % on agricultural products, 8.4 % on fishery products and 1.9 % on industrial goods. By comparison, the EC tariffs²⁶ currently stand at 6.3 % on all products, 16.2 % on agricultural products, 12.4 % on fishery products and 3.6 % on industrial products.

The Law on Protection against Subsidised Imports came into force in January 2001 and will be applied until the date of Latvia's accession to the EU. Since January 2001, the previously existing double-checking system for textile products has been abolished.

As regards **bilateral agreements with third countries**, during the last year, negotiations continued with Bulgaria, Romania and the Faeroe Islands.

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

²⁶ WTO bound tariffs after full implementation of all concessions including – where possible – estimated ad valorem equivalents of specific and compound tariffs.

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

Overall assessment

Where alignment with the Community *acquis* on commercial policy is necessary, Latvia is advanced. Further harmonisation may be required upon accession. Where medium and long term export credits are granted, further alignment is also necessary.

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

Latvia is a signatory to the Agreement on Trade in Information Technology Products (ITA) and to the plurilateral Agreement on Civil Aircraft. Latvia will need to have joined the plurilateral WTO Agreement on Government Procurement (GPA) by the time of its accession to the EU. Latvia is at present an observer to the GPA Committee; negotiations on Latvia's accession to the GPA started in 1999. As regards the WTO Agreement on Trade in Textiles and Clothing (ATC), Latvia has co-operated with the Community in the process of third-stage notification to align its list of integrated products under the ATC with the EC's, thus avoiding integrating products that have not yet been integrated by the EC. Also, further co-ordination is needed to ensure the alignment of Latvia's GATS commitments with the EC's commitments and MFN exemptions.

Where medium and long term Export Credits are granted, further efforts are necessary to align to the *acquis*.

Further alignment to the new EC Regulation on Dual Use Goods is necessary.

Latvia has bilateral Free Trade Agreements with Hungary, the Czech Republic, the Slovak Republic, Slovenia, Poland, Estonia and Lithuania (Baltic Free Trade Agreement), Turkey, Ukraine and EFTA. Latvia should continue to keep the Union fully informed about existing trade agreements or negotiations aimed at the conclusion of any new trade agreements with a third country. Concerning bilateral agreements with third countries, any international agreement which is incompatible with the obligations of membership will have to be re-negotiated or renounced prior to accession. This applies also to Bilateral Investment Treaties concluded with third countries.

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

The responsibility for foreign economic policy is shared by the Ministries of Foreign Affairs and of Economy. The department of trade policy within the Ministry of Agriculture deals with agricultural trade issues (including WTO matters). Some upgrading might be needed in order to have the necessary administrative capacity upon accession, also with a view to participating in the EU's development and humanitarian aid policies. For the purpose of Latvia's future financial contribution to the European Development Fund, Latvia's management of its national budget and future flow of funds to the EC budget is addressed in the relevant chapter of this report

(Chapter 29 – *Financial and budgetary provisions*). The administrative infrastructure which needs to be in place as regards customs services is addressed under the chapter relating to the Customs Union (Chapter 25 – *Customs union*).

Chapter 27: Common foreign and security policy

Since the last Regular Report, Latvia has continued to align its foreign policy with that of the European Union and has participated constructively in the framework of the Common Foreign and Security Policy.

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

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

As regards alignment with **EU statements and declarations**, Latvia has regularly aligned its positions with those of the Union and, when invited to do so, has associated itself with the Union's **joint actions and common positions** and other CFSP instruments, including negative measures. Since October 2000, it has associated itself with 8 EU common positions, including 3 on the Federal Republic of Yugoslavia.

Latvia's legislation on **international sanctions and restrictive measures** had already been brought into line with the *acquis*. Latvia played an active role in the first Capabilities Commitment Conference in November 2000. It improved the administrative capacity of its Ministry of Defence and has started preparations to form special units to be part of EU Rapid Intervention Force missions as of 2003.

Overall assessment

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

Latvia has developed considerable efforts to support international peacekeeping missions. It has participated in SFOR, KFOR, OSCE and WEU peacekeeping and observer operations.

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

The Latvian Ministry of Foreign Affairs has structures compatible with the CFSP requirements. The Ministry is connected to the Associated Correspondents' Network information system through which the EU communicates within the CFSP with the associated partners.

Chapter 28: Financial control

During the period covered by this Regular Report, some progress has been made, in particular in strengthening administrative capacities.

Latvia has continued with the development of its **Public Internal Financial Control** system. The Ministry of Finance made recommendations on the performance of joint auditing in April 2001, and recommendations on the methodology of the Latvian peer review system in May 2001. Moreover, the Internal Audit Council has drawn up a report on the state of play in implementation of the internal audit system.

As regards administrative capacity, the Internal Audit Department of the Ministry of Finance has two divisions (now with 4 staff members in each division): the Internal Audit Unit of the Ministry of Finance and the Internal Audit Methodology Unit. The latter is responsible for developing a harmonised audit methodology, drafting legislation related to internal audit, as well as co-ordinating the training and improving the professional qualifications of auditors. The Internal Audit unit is also responsible for assessing the quality of internal audit units in spending centres (through the process of peer reviews) as well as for carrying out joint audits on EC funds. The Internal Audit Department of the Ministry of Finance acts as the Secretariat for the Internal Audit Council.

The peer reviews have started, but the process has been slow in 2000, largely due to the fact that the Internal Audit Units have only recently been established. The successful implementation of the recommendations made to the Ministry of Agriculture following a pilot peer review there should be noted.

The establishment of Internal Audit Units within spending centres has continued, and 188 staff members are now in place, with 23 vacancies remaining. Staff turnover is relatively low. The provision of extensive training continues.

In 2001, 100 internal auditors received basic training in internal audit (in 2000, 60 internal auditors underwent this course). The Ministry of Finance has ensured monthly meetings for heads of internal audit units in all ministries to exchange experiences and discuss methodological issues.

Training is based on the Internal Audit Manual which includes step-by-step guidelines for developing audit needs assessments, strategic plans and annual plans.

As regards **external audit**, the State Audit Office's (SAO) activities have focused on providing opinions on the annual statements of central budget institutions and municipalities in accordance with international auditing standards. Extensive training was provided to the staff of the SAO in order to enhance professional capacity. 104 employees of the SAO took part in training courses by the Latvian School of Public Administration and 62 participated in training on INTOSAI auditing standards amongst other matters.

Progress has been achieved by Latvia regarding the control of **structural action expenditure**. In April 2001, procedural rules for joint internal audits of programmes and projects financed by the EC were approved.

Progress can be reported in the field of the **protection of the financial interests of the European Communities**. In January 2001, a regulation on the rights of EC structures to participate in on-the-spot checks of the legality of spending of EC resources was adopted.

Overall assessment

While Latvia has advanced well with regard to the establishment and further strengthening of the internal audit units, the legislative alignment in the area of Public Internal Financial Control and external audit needs to be completed.

Detailed rules for the establishment of internal audit structures in public agencies need to be adopted, and Latvia needs to strengthen the functionally independent internal audit units in all the budget spending centres, in particular in relation to audit planning and audit reporting. The concept of managerial accountability needs to be developed and implemented.

Furthermore, Latvia needs to achieve further alignment with regard to external audit, including compliance with INTOSAI standards as well as the strengthening of the financial independent status of the State Audit Office (SAO) and the follow-up procedures of the SAO audit findings by the Parliament. The Law on the State Audit Office, which aims to grant the authority to carry out a complete audit of EC expenditures and to reinforce the financial independence of the SAO, remains to be adopted. In the future, steps will have to be taken to ensure that auditors specialise in fields such as IT audits and quality systems based and performance audits. The operational capacity of the State Audit Office needs to be enhanced.

With regard to the control of structural action expenditure, efforts need to be made to enhance Latvia's capacity to manage Structural Funds in the future, in particular through the further implementation of the public internal financial control rules and procedures, including the completion of audit trails for pre-accession funds. Efforts to ensure the correct use, control, monitoring and evaluation of EC pre-accession funding need to continue. The development of mechanisms for the rapid recovery of lost EC funds is equally important. Ex ante controls will have to be introduced for tender procedures and contract awarding. Moreover, Latvia needs to develop a framework for the recovery of unduly paid sums, co-ordination of preventive actions, and follow-up of and reporting on irregularities of a non-criminal nature. The SAPARD agency was accredited at national level. The procedure for the Commission Decision conferring the management of SAPARD aid is ongoing.

With a view to ensuring protection of EC financial interests, Latvia seems to have the necessary legislation in place to allow the competent EC bodies to carry out on-the-spot checks. However, it needs to develop administrative capacity adequate to implement the *acquis*, including the ability of the Latvian law enforcement bodies and judiciary to address cases where EC financial interests are at stake. Latvia should as soon as possible nominate, in consultation with OLAF, an institution or administrative structure with the appropriate competencies to co-ordinate investigations into cases of fraud and irregularities affecting the EC's financial interests, and to act as a single contact point in relation with OLAF.

Chapter 29: Financial and budgetary provisions

Since the last Regular Report some limited progress has been achieved, notably concerning medium-term budgeting.

In the area of the **national budget and EC co-financed measures**, the Latvian authorities continued the improvement of the budgetary process with emphasis on medium-term budgeting. Methodological Guidelines on Medium Term Budget Planning were adopted by the government in April 2001, stating that medium-term policy priorities would be integrated in the budgetary process as of 2002. The resources allocated to Latvia from the EC assistance programmes have been included in the law on the state budget for 2001. No new developments concerning legislation related to the application of **the own resources** system, can be reported. However, a working group was created for the completion of the preparatory activities, including theoretical calculations and forecasts of own resources.

Overall assessment

Overall, Latvia has only advanced to a limited extent in this area.

Although basic budgetary rules are broadly satisfactory, Latvia should ensure budgetary principles and rules are brought into line with those standards generally applicable in the Community. The budgetary legislation needs to be strengthened, particularly as regards the development of evaluation and monitoring procedures for programmes and projects, especially those due to receive Community funding. The process of multi-annual budgetary programming needs to be carried forward.

Concerning own resources, the relevant Latvian legislation related to customs duties and to the calculation of the VAT resource is not yet fully in line with the *acquis*. The methodology to estimate GNP data is also not yet fully in line with ESA 95 standards.

Appropriate administrative steps should be taken by Latvia to ensure adequate co-ordination between the various authorities involved in the application of the system of Own Resources. The capacity to calculate in a reliable, accurate and transparent way the level of customs duties and VAT collected by Latvia and to calculate Latvia's GNP needs to be improved to allow calculations to be made in a harmonised and controllable way. Adequate administrative capacity to duly collect and transfer in a timely manner all Own Resources to the Community budget will need to be established prior to accession, as well as the ability to accurately and regularly report to the Commission on the situation with regard to each of the types of own resources.

In relation to the control of future EC own resources, Latvia should continue its efforts to set up effective instruments to combat fraud relating to VAT and customs duties so that the protection of the financial interests of the EC can be assured.

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

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

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

The translation of the *acquis* into Latvian and the translation of Latvian legislation into English is carried out by the Translation and Terminology Centre (TTC), which was established in 1996 and reports to the European Integration Bureau. The current staff of the centre working on EC legislation includes 10 revisers, 7 terminologists and 4 in-house translators, which represents a slight increase in staff numbers as compared to last year. In addition, the Centre works with about 25 freelance translators. It has been possible to continue to work with the freelance translators, who until last year were paid for by external assistance from the Phare programme, thanks to an increase in the Centre's budgetary allocation from the national budget.

By September 2001, roughly 30,000 pages of the Official Journal had been translated into Latvian (compared to roughly 14,400 pages in mid-2000). The overall number of fully revised pages is lower (about 25,000). During the last year, work continued on the generation of term equivalents for English and Latvian respectively. In mid-2001, about 29,000 terms had been registered in the Translation and Terminology Centre's own terminology database. In addition, the Centre administers a central terminology database, to which other sources contribute, and which contains about 122,000 terms. A complete database for the translated *acquis* still needs to be set up, but all translations of Latvian legislation have been made available on the internet. Most of the *acquis* translation and revision to date has been concentrated in the areas of agriculture (9,100 pages fully revised), the Internal Market and Industrial policy (3,700 pages) and the Free movement of goods and Customs union (2,500 pages). Without prejudice to the outcome of the accession negotiations, considerable further efforts are still required in this area.

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

3.3. General evaluation²⁷

Latvia has kept up a steady pace in aligning its legislation with the *acquis* in most areas. The need to strengthen the administrative capacity to manage and enforce the *acquis* has been recognised, even though this process continues to represent considerable challenges. Efforts during the last year included both re-organisation of existing structures and the creation of several specialised bodies with a view to complying with the various requirements of the *acquis*.

Preparations for the Internal Market advanced further. As concerns *movement of goods*, the transposition of European standards accelerated, and the institutions for accreditation and standardisation have been further strengthened. The new Market Surveillance Council became operational, but the reform of the market surveillance system needs to continue. Further

²⁷ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

legislation was also adopted in the area of public procurement, but the Public Procurement Surveillance Bureau has not yet been created. In the area of *free movement of persons*, framework legislation on mutual recognition of professional qualifications was adopted. In the area of *freedom to provide services*, two new bodies, the Financial and Capital Market Commission and the State Data Inspectorate started to function, even though further improvements of the legislative basis of the latter will be necessary. Further legislation was also adopted concerning the *movement of capital*, in particular on security services and cross-border credit transfers. In the area of *company law*, the enforcement of legislation remains a matter of concern. Delays in the entry into force of the Commercial Code and the effective protection of intellectual and industrial property rights constitute a serious challenge. The adoption of legislation related to state aid represents an important step towards meeting requirements of *competition* policy; Latvia's enforcement record in this area has also developed but efforts to ensure the full implementation of anti-trust and state aids rules should continue. In the area of *customs*, progress was made in alignment and in upgrading the administrative structures, which were also strengthened for *taxation*. For both areas, the development of IT systems so as to allow for the exchange of electronic data with the Community and its member states needs to be carried forward.

Encouraging efforts were undertaken in the area of *agriculture*, in particular concerning veterinary and phytosanitary matters, as well as food safety. Achievements include the adoption of amendments to the Law on Agriculture, the adoption of an implementation plan for common market organisations, the entry into force of a new Law on Veterinary Medicine and the restructuring and strengthening of the administration. Important challenges still lie ahead, both in completing alignment and in introducing and upgrading the necessary structures and mechanisms, including the paying agency, the integrated administration and control system, common market organisations and inspection arrangements.

Alignment also continued for road and railways *transport*, and the ongoing efforts to improve maritime safety have shown some first results. A significant step in transposing the social policy and employment *acquis* was reached with the adoption of the Labour Code and the Law on Labour Protection. To ensure the proper implementation of legislation, the administrative capacity should be reinforced, in particular concerning occupational health and safety, including the further strengthening of the State Labour Inspectorate. Further alignment was achieved in the areas of *energy* and *environment*. For energy, this needs to continue with special emphasis on the electricity and gas directives, as well as oil stocks; for the area of environment, alignment needs to be completed as concerns access to environmental information, waste management and chemicals. Several specialised bodies were set up, including the Energy Inspectorate, the Radiation Safety Centre and the Latvian Environment Agency, and, but further efforts to upgrade the administrative structures are needed.

The transposition of most of the requirements for *telecommunications* is still pending. Considerable progress was made in aligning to the *culture and audiovisual acquis*. For *justice and home affairs*, progress could be noted on data protection, visas and border control, including also the adoption of a Schengen Action Plan. These efforts need to be maintained, and alignment in the areas of migration and asylum completed. Upgrading the capacity and infrastructure for border management also remains a priority. The fight against organised crime, drug trafficking, money laundering, fraud and corruption also needs to be reinforced.

As to *regional policy and the co-ordination of structural instruments*, the basic legislation remains to be adopted. Progress is also needed on programming, monitoring and evaluation capacities. The decision to entrust the Ministry of Finance with the future responsibility for Structural Funds represents an important step. Although further legislation on *Public Internal Financial Control* and external audit remains to be adopted, some advancements in this area could be noted, in particular as concerns the strengthening of the administrative structures; this process needs to continue.

Preparing its administration for EU membership remains one of the greatest challenges Latvia faces. With a view to the responsibilities Latvia will have to assume in managing and enforcing the *acquis* upon accession, a substantial portion of the necessary institutions and bodies have been re-structured or created. This process needs to continue, including the setting up of further new bodies and mechanisms, for example a Public Procurement Surveillance Bureau, agricultural market intervention mechanisms and the Guarantee Fund for the Protection of Employees in the Event of Insolvency of Their Employer. Furthermore, it will be vital to provide all institutions with sufficient resources to ensure the reliable implementation and enforcement of the *acquis*, for example, the new Public Services Regulation Commission, which will have important *acquis*-related regulatory responsibilities in the areas of railways, energy and telecommunications. Continued efforts will also be necessary to ensure sound, efficient and controllable management of EC funds.

Latvia has made progress on all the short-term Accession Partnership priorities. Achievements included for example the areas of free movement of goods, social policy and employment as well as environment, where the process is close to completion. All the medium-term priorities have been addressed, and progress is well underway for most of them. Major steps forward could be noted for the free movement of persons, audiovisual legislation and customs. However, work towards all priorities should continue, with particular attention on those areas where important legislation still needs to be adopted, such as energy, telecommunications, and economic and social cohesion, or the administrative structures strengthened, such as agriculture, fisheries and the control of EC funds

C. Conclusion²⁸

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

During the last year, the government remained committed to reforming the Public Administration and the judiciary, as well as to fighting against corruption. Strategic documents on Public Administration Reform and Corruption Prevention were adopted, as was framework legislation on public agencies, and practical measures were pursued in all three areas. It will now be necessary to maintain the momentum of Public Administration Reform with the completion of the legal framework and the development of a stable civil service, including through the introduction of pay reform. In parallel, the reform of the judicial system must be carried on, with particular attention to the legal framework, speeding up and enforcing court decisions, and addressing the issue of pre-trial detention. Measures to combat corruption, which remains a source of concern, need to continue with a view to achieving concrete results on a broad scale.

Further important steps were taken to promote the integration of non-citizens into Latvian society, notably measures to facilitate the naturalisation procedure and the adoption of both a more elaborate Society Integration Programme and the legal basis for the future Social Integration Foundation. The ongoing efforts to support the integration of non-citizens need to be sustained through the implementation of the comprehensive Society Integration Programme in all its aspects, including activities to encourage naturalisation and the expansion of Latvian language training. Latvia should ensure that the implementation of the Language Law respects the principles of justified public interest and proportionality, Latvia's international obligations and the Europe Agreement.

Latvia has achieved progress towards meeting the short-term priorities of the Accession Partnership in the areas of the Language Law and language training, as well as administrative and judicial capacity. Some progress has also been made towards meeting the medium-term priorities in the areas of further integrating non-citizens, developing the civil service and improving the capacity of the public administration; however, these efforts need to continue.

Latvia is a functioning market economy. Provided that it makes further substantial efforts in maintaining the pace of, and completing, its structural reforms, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Latvia has preserved macroeconomic stability. Further progress has been made on structural reform, the last steps of the pension reform, a new framework for financial supervision and a new regulatory authority for public utilities have been introduced. The legislative framework for a market economy is, for the most part, in place, and market entry and exit mechanisms

²⁸ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

continue function in a satisfactory manner. The financial sector, although small, is gradually consolidating.

However, the authorities must continue a policy of fiscal discipline, within a medium term fiscal framework, in order to keep the budget deficit and the current account deficit sustainable over the medium term. Privatisation of the remaining large enterprises has advanced more slowly than anticipated and should be completed. The privatisation of land and the development of the land market should be advanced. Measures to improve the business environment have been introduced, and this process should continue, in particular through the removal of the remaining regulatory and administrative constraints to enterprise development. Unemployment remains at high levels and labour market flexibility should be enhanced.

Latvia has kept up a steady pace in aligning its legislation with the *acquis* in most areas. The need to strengthen the administrative capacity to manage and enforce the *acquis* has been recognised, even though this process continues to represent considerable challenges. Efforts during the last year included both re-organisation of existing structures and the creation of several specialised bodies with a view to complying with the various requirements of the *acquis*.

Preparations for the Internal Market advanced further. As concerns *movement of goods*, the transposition of European standards accelerated, and the institutions for accreditation and standardisation have been further strengthened. The new Market Surveillance Council became operational, but the reform of the market surveillance system needs to continue. Further legislation was also adopted in the area of public procurement, but the Public Procurement Surveillance Bureau has not yet been created. In the area of *free movement of persons*, framework legislation on mutual recognition of professional qualifications was adopted. In the area of *freedom to provide services*, two new bodies, the Financial and Capital Market Commission and the State Data Inspectorate started to function, even though further improvements of the legislative basis of the latter will be necessary. Further legislation was also adopted concerning the *movement of capital*, in particular on security services and cross-border credit transfers. In the area of *company law*, the enforcement of legislation remains a matter of concern. Delays in the entry into force of the Commercial Code and the effective protection of intellectual and industrial property rights constitute a serious challenge. The adoption of legislation related to state aid represents an important step towards meeting requirements of *competition* policy; Latvia's enforcement record in this area has also developed but efforts to ensure the full implementation of anti-trust and state aids rules should continue. In the area of *customs*, progress was made in alignment and in upgrading the administrative structures, which were also strengthened for *taxation*. For both areas, the development of IT systems so as to allow for the exchange of electronic data with the Community and its member states needs to be carried forward.

Encouraging efforts were undertaken in the area of *agriculture*, in particular concerning veterinary and phytosanitary matters, as well as food safety. Achievements include the adoption of amendments to the Law on Agriculture, the adoption of an implementation plan for common market organisations, the entry into force of a new Law on Veterinary Medicine and the restructuring and strengthening of the administration. Important challenges still lie ahead, both in completing alignment and in introducing and upgrading the necessary structures and mechanisms, including the paying agency, the integrated administration and control system, common market organisations and inspection arrangements.

Alignment also continued for road and railways *transport*, and the ongoing efforts to improve maritime safety have shown some first results. A significant step in transposing the social policy and employment *acquis* was reached with the adoption of the Labour Code and the Law on Labour Protection. To ensure the proper implementation of legislation, the administrative capacity should be reinforced, in particular concerning occupational health and safety, including the further strengthening of the State Labour Inspectorate. Further alignment was achieved in the areas of *energy* and *environment*. For energy, this needs to continue with special emphasis on the electricity and gas directives, as well as oil stocks; for the area of environment, alignment needs to be completed as concerns access to environmental information, waste management and chemicals. Several specialised bodies were set up, including the Energy Inspectorate, the Radiation Safety Centre and the Latvian Environment Agency, and, but further efforts to upgrade the administrative structures are needed.

The transposition of most of the requirements for *telecommunications* is still pending. Considerable progress was made in aligning to the *culture and audiovisual acquis*. For *justice and home affairs*, progress could be noted on data protection, visas and border control, including also the adoption of a Schengen Action Plan. These efforts need to be maintained, and alignment in the areas of migration and asylum completed. Upgrading the capacity and infrastructure for border management also remains a priority. The fight against organised crime, drug trafficking, money laundering, fraud and corruption also needs to be reinforced.

As to *regional policy and the co-ordination of structural instruments*, the basic legislation remains to be adopted. Progress is also needed on programming, monitoring and evaluation capacities. The decision to entrust the Ministry of Finance with the future responsibility for Structural Funds represents an important step. Although further legislation on Public Internal *Financial Control* and external audit remains to be adopted, some advancements in this area could be noted, in particular as concerns the strengthening of the administrative structures; this process needs to continue.

Preparing its administration for EU membership remains one of the greatest challenges Latvia faces. With a view to the responsibilities Latvia will have to assume in managing and enforcing the *acquis* upon accession, a substantial portion of the necessary institutions and bodies have been re-structured or created. This process needs to continue, including the setting up of further new bodies and mechanisms, for example a Public Procurement Surveillance Bureau, agricultural market intervention mechanisms and the Guarantee Fund for the Protection of Employees in the Event of Insolvency of Their Employer. Furthermore, it will be vital to provide all institutions with sufficient resources to ensure the reliable implementation and enforcement of the *acquis*, for example, the new Public Services Regulation Commission, which will have important *acquis*-related regulatory responsibilities in the areas of railways, energy and telecommunications. Continued efforts will also be necessary to ensure sound, efficient and controllable management of EC funds.

Latvia has made progress on all the short-term Accession Partnership priorities. Achievements included for example the areas of free movement of goods, social policy and employment as well as environment, where the process is close to completion. All the medium-term priorities have been addressed, and progress is well underway for most of them. Major steps forward could be noted for the free movement of persons, audiovisual legislation and customs. However, work towards all priorities should continue, with particular attention on those areas

where important legislation still needs to be adopted, such as energy, telecommunications, and economic and social cohesion, or the administrative structures strengthened, such as agriculture, fisheries and the control of EC funds.

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

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

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

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

1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in italics.²⁹

Short-term priorities

- **Political criteria:** In November 2000, further amendments to the implementing regulations of the *Language Law* were adopted to further delimit the scope of language requirements for the performance of professional duties. In June 2001, amendments to the Administrative Violations Code were adopted, which foresee fines for eleven different violations related to the implementation of the Language Law. It is important that the competent authorities only apply and enforce the Language Law and its implementing regulations to the extent required by a legitimate public interest, having regard to the principle of proportionality, and in view of Latvia's international obligations, as well as the rights and freedoms guaranteed under the Europe Agreement. The Latvian *Language Training Programme* has continued and in 2001, the government allocated direct state funding to the programme for the first time. **Therefore, this priority has been met to a considerable extent.**
- **Economic criteria:** Progress was made with regard to the stimulation of *investment* and the improvement of the business environment through the simplification of *legal and administrative procedures*, in particular the tax system and customs and border-crossing procedures. These efforts must continue, taking into account the needs of the business community. While the overall process of *privatisation* is almost complete, the process has proved to be difficult to conclude for the few remaining large enterprises. The *registration of land* in the Cadastre has been virtually complete for several years, but registration in the Legal Register (Land Book) has been slower and now stands at about 64%. An electronic

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

registration system became operational in July 2001. Based on the Law on Public Services *Regulators*, which entered into force in June 2001, the new regulatory authority (the Public Services Regulation Commission) for the areas of energy, telecommunications, postal services, and railways became operational in September 2001. **Therefore, this priority has been met to a considerable extent.**

- **Internal market:** Latvia continued the process of alignment in the area of *Public Procurement*. The Public Procurement Surveillance Bureau has, however, not yet been set up. Regarding *intellectual property rights*, enforcement remains a matter of concern. A Strategic Development Programme (2001-2005) was, however, adopted in August 2001. The Law on Personal Data Protection had already been adopted in March 2000 but needs some further finetuning. The entry into force of the new *Commercial Code* was delayed and is now scheduled for January 2002.

Alignment in the area of *free movement of goods* continued as concerns the New approach and specific sectors, and further progress was made in strengthening institutions for accreditation and standardisation. In the area of *capital movements*, liberalisation continued concerning security services, and legislation on cross-border credit transfers entered into force in January 2001. A few restrictions nevertheless continue to exist. Further progress in alignment was made concerning financial *services*, and some steps were taken to enhance the administrative capacity. The Financial and Capital Market Commission became operational in July 2001. The prohibition of establishment of branches by foreign insurance companies has not yet been lifted.

In the field of *taxation*, amendments to the Law on VAT were made in January 2001. Improvements were also made to the system of tax collection. In the area of *customs*, further alignment to the EC Customs Code as well as to the other *acquis* was achieved, and several steps were taken to strengthen the customs administration. **Therefore, this priority has been met to a considerable extent.**

- **Agriculture:** A number of legislative acts were adopted in the area of *veterinary and phytosanitary legislation* during the last year, including a new Law on Veterinary Medicine, which entered into force in July 2001, and legislation related to animal welfare, veterinary control and plant variety protection. The *upgrading* and equipping of *border posts* continued. An initial strategy for bringing food *processing plants* in line with EC requirements has been developed, but so far, no detailed action plan has been elaborated. A large part of the plants do not yet fulfil EC requirements. **Therefore, this priority has been met to a considerable extent.**
- **Transport:** No new legislation in the area of *maritime safety* was adopted during the last year, but Latvia acceded to a number of international conventions. The strengthening of the administrative capacity has gained momentum as the internal restructuring of the Maritime Administration is advancing. During the last year, port state controls and the detention rates of Latvian ships (flag state control) improved somewhat. **Therefore, this priority has been met to a considerable extent.**
- **Employment and Social Affairs:** In February 2001, the government adopted a *National Employment Plan* for the year 2001. The development of *bi-partism* remained weak although some trends of strengthening have been observed. The new *Labour Code* was

finally adopted by Parliament in June 2001, transposing the majority of the labour law *acquis*. **This priority continues to be partially met.**

- **Environment:** In May 2001, amendments to existing legislation were adopted with a view to completing alignment as concerns *environmental impact assessment*. In addition, *legal alignment* continued in particular in relation to waste management, pollution, nature protection and nuclear safety. Concerning the *environmental administration*, a Strategy and Information Unit was set up in the Ministry of Environmental Protection, and several specialised bodies were established, including the Latvian Environment Agency, the Monitoring Council of GMOs, the Council of Packaging Management and the Radiation Safety Centre. The *cost estimates* and investment plans were further refined. **Therefore, this priority has been met to a large extent.**
- **Justice and home affairs:** In March 2001, Latvia adopted a conceptual document on the development of the State *Border Guard*. Work on the establishment of an integrated border control system continued, as did infrastructure work on the border posts and the provision of equipment. To improve the co-ordination between *law enforcement bodies* as well as the fight against computer crime and cybercrime and smuggling and trafficking in human beings, the Latvian authorities introduced several modifications in the central administrative structures. Some limited further progress was made in advancing with the reform of the *judiciary*, both at conceptual level and with the adoption of framework legislation and the pursuit of practical measures. However, the independence of the judiciary needs to be ensured, the legal framework is not yet complete, the training of judges needs to be expanded, and the backlog of court cases and pre-trial detention periods need to be addressed. In the area of *migration*, procedural rules concerning residence permits and registration were adopted in May 2001. Work also continued in the area of *asylum*, including training measures. In both areas, Latvia's legislation is broadly in line with the *acquis*, but some issues are still outstanding. Latvia ratified the European Criminal Law *Convention on Corruption* in December 2000. **Therefore, this priority has been met to a considerable extent.**
- **Reinforcement of administrative and judicial capacity, including the management and control of EC funds:** Two important pieces of framework legislation, the *Civil Service Law* and the Law on Agencies, as well as a new Strategy for *Public Administration Reform* were adopted, and further practical measures to improve the functioning of the administration were also introduced. A Framework Law on the Institutional Structure of the Public Administration is, however, still pending. Implementation will require considerable further efforts. While the final version of the *Rural Development Plan* was adopted in October 2000, work on the *National Development Plan* continued but has not been completed. A *paying agency* for SAPARD has been accredited at the national level, and the procedure for the Commission decision conferring the management of SAPARD aid is ongoing. Concerning *financial control*, Latvia has continued with the development of its Public Internal Financial Control system, and the establishment of internal audit units within spending centres and training for auditors continued. **Therefore, this priority has been met to a considerable extent.**

Medium-term priorities

- **Political criteria:** In February 2001, a long version of the already existing Programme ‘The Integration of Society in Latvia’ was adopted. This long version contains concrete project proposals. In July 2001, a Law providing for the creation of a Social Integration Foundation was adopted. The Foundation is responsible for the selection of projects to implement the programme ‘The Integration of Society’ and for securing funding. Preparations to set up the Foundation are ongoing. There is still a significant shortage of *language* teachers, and it will be important that the government’s support for the Latvian Language Training Programme be maintained and increased in the coming years. **Therefore, this priority has been partially met.**
- **Economic criteria:** Measures in support of *Small and medium-sized enterprises* have not yet had a significant impact on SME development. An evaluation of the current SME strategy and implementing policies is, however, ongoing. Access to finance remains one important obstacle to the development of SMEs. In preparation for the *annual fiscal surveillance procedure*, Latvia submitted its first fiscal notification in April 2001 and its first Pre-accession Economic Programme (PEP) in May 2001, of which the main objectives are to further consolidate the budget and improve the business environment. *Social security* contributions were cut both in 2000 and 2001. The last step in the pension reform, a second pillar, was introduced in July 2001. The reform is not intended to raise total social contributions, and initially the system may require funding from the state. **Therefore, this priority has been partially met.**
- **Internal market:** Latvia’s legislation on *intellectual and industrial property rights* is now broadly in line with the *acquis*. The *State Data Inspectorate* started operations in January 2001. Further improvements regarding the legislative basis as well as the independence and functioning of the new body are necessary. In the area of *free movement of goods*, alignment is well advanced, but further efforts are needed in the non-harmonised area. Accreditation and standardisation bodies are in place and the reform of the market surveillance system has started. In the area of *capital*, Latvia’s legislation on outward portfolio investments by private pension funds and insurance companies is not yet in line with the *acquis*. A Law on Regulated Professions and *Recognition of Professional Qualifications* was adopted in June 2001, and implementing regulations will now have to be developed.

The enforcement of *competition* rules is forthcoming in both the anti-trust and state aid areas, but the enforcement record still needs to be enhanced. For anti-trust, a more deterrent sanctioning policy needs to be developed. The Law on *Telecommunications* is still pending. The new regulatory body (the Public Services Regulation Commission) started operating in September 2001. As to the *audiovisual* sector, in February 2001, the Radio and Television Law was further amended, and only few further changes are necessary. The National Radio and Television Council still needs to be strengthened concerning monitoring and sanctioning.

For *taxation*, further legal adjustments are still necessary, as the list of VAT exemptions is still broader and the excise duty rates lower than permitted by the *acquis*. The steps taken to enhance the administrative capacity should be continued, especially as regards the central administration of the State Revenue Service. Latvia’s general *consumer protection* system is broadly in line with the *acquis*, and only some further alignment is still necessary. Problems

remain regarding the enforcement of legislation, the institutional set-up for the protection of consumer rights and the market surveillance mechanism. Progress has been achieved regarding the capacities of the *customs* administration, but efforts need to continue regarding control points, laboratories, the improvement of border management and the fight against irregularities and corruption. **Therefore, this priority has been partially met.**

- **Agriculture:** A detailed implementation plan for the introduction of the *Common Agricultural Policy management mechanisms* was finalised in June 2001. So far, Latvia has parallel mechanisms for some of the required areas, including grain and sugar, but they all need to be brought in line with EC requirements. Regarding the *food control administration*, the government adopted a Food Safety Strategy in April 2001 and decided to establish a Joint Food Supervision Service to overcome problems of co-ordination and to implement the Strategy. The new Service is scheduled to become operational in January 2002. In both the *veterinary and phytosanitary* sectors, the transposition process is well underway, but needs to be continued. To help structure the workload, a comprehensive and detailed strategy should be developed. The strengthening of the implementation and control structures has started. **Therefore, this priority has been partially met.**
- **Fisheries:** Progress towards meeting the requirements of the *Common Fisheries Policy* has been achieved, including the introduction of the satellite monitoring system, the establishment of a computerised fishing vessels register, and the elaboration of a detailed implementation plan for market intervention mechanisms. Further efforts are necessary, in particular as concerns inspection and control, where sufficient resources need to be provided, the legislative basis for implementing structural actions, and the introduction of market intervention mechanisms. **Therefore, this priority has been partially met.**
- **Energy:** Concerning the *internal energy market*, Latvia's legislation is not yet in line with the requirements of the electricity and gas directives. The new regulatory body (the Public Services Regulation Commission) became operational in September 2001 but does not yet fulfil all the requirements of the *acquis*. Latvian legislation is also not yet in line with the *oil stock requirements*. In November 2000, the government adopted the National *Energy Efficiency* Strategy, and a package of implementing legislation was adopted in January 2001. Alignment with the *acquis* in this area is, however, only partial. **Therefore, this priority has been partially met.**
- **Transport:** Amendments to the *Road Traffic Law* were adopted in February 2001. In addition, Latvia adopted a number of legislative acts related to weight and dimensions, type approval, registration of vehicles, qualification of drivers and carriage of dangerous goods. A number of EC requirements have, however, not yet been introduced. A Law on Carriage by *Rail* entered into force in January 2001. Secondary legislation still needs to be adopted. In the area of *air* transport, Latvia has harmonised a good part of its legislation. The legal basis for the independent investigation authority for civil aviation accidents now needs to be established. As concerns *maritime* transport, first results of the ongoing efforts to improve maritime safety could be noted. **Therefore, this priority has been partially met.**
- **Employment and Social Affairs:** With the adoption of the Labour Code and the Law on Labour Protection in June 2001, the majority of the *acquis* requirements regarding *labour law, equality of treatment, and health and safety at work* has been transposed but alignment needs to be completed. The *independent guarantee fund for employees* in the

case of employer's insolvency has not yet been set up, as the necessary legislation has not yet been adopted. As concerns *social* protection, in July 2001, the second pillar of the pension system was established. **Therefore, this priority has been partially met.**

- **Economic and social cohesion:** Work on the drafting of a *development plan* (National Development Plan) as required in the Structural Funds Regulations is ongoing but not yet complete. In July 2001, the government decided to entrust the Ministry of Finance with the task of *managing the Structural Funds* in the future. The Ministry of Finance will be responsible for co-ordination of the *national budgetary policy* with the planning of the EC Structural Funds intervention. Overall, only limited progress concerning legislative, institutional, structural and administrative issues has been made to date. The legal basis for the future participation in the EC Structural Funds should be adopted as a matter of priority. **Therefore, this priority has been partially met.**
- **Environment:** At present, Latvian legislation is partially in line with the *acquis*, and the *transposition* should continue in all sectors, along with preparations to ensure the effective enforcement. Particular efforts are required in the fields of waste management, water quality and chemicals. Latvia continued to implement the action programme for *sustainable development* adopted by all Baltic Sea countries ('Agenda 21'). The new Strategy and Information Unit in the Ministry of Environment will, amongst other areas, work on the integration of environmental issues into other sectors. **Therefore, this priority has been partially met.**
- **Justice and home affairs:** Latvia continues to advance in the area of *visas*, having introduced a visa-free regime with several further countries and terminated existing visa-free regimes where required. In May 2001, an Action Plan for the implementation of the requirements of the Schengen *acquis* was adopted. Subsequently, a further refined Action Plan was adopted in early October 2001. Good progress has been made in the field of police co-operation, where Latvia acceded to the relevant international regulatory instruments and established a legal base for co-operation with the member states, neighbouring and other countries. Consultations on the conclusion of the co-operation agreement with *Europol* started. Some positive steps could be noted in the fight against *corruption*, including the adoption of a revised Corruption Prevention Programme in May 2001. However, despite continued efforts to advance at conceptual level, with the legal framework and with the implementation of various measures, these have not yet translated into concrete results on a broad scale. **Therefore, this priority has been partially met.**
- **Reinforcement of administrative and judicial capacity, including the management and control of EC funds:** In January 2001, the *Civil Service Law* and a Civil Service Code of Ethics entered into force and a conceptual document for the completion of pay reform within three years was adopted. However, in the 2001 national budget, no provisions for the implementation of the Civil Service Law were made. With a view to strengthening the *capacity of the administration to implement and manage the acquis*, important efforts have been made and first results achieved; nevertheless, acquiring the necessary administrative capacity remains one of the most important challenges Latvia faces. As to *financial control*, in January 2001, legislation was adopted foreseeing the right of EC structures to participate in on-the-spot checks of the legality of spending of EC resources, and in April 2001, procedural rules for joint internal audits of programmes and projects financed by the EC were adopted. As the voluntary amalgamation of municipalities had

progressed slower than anticipated, a model of administrative *territorial reform* was adopted in July 2001, which foresees the creation of 102 local authorities instead of the existing 552. Latvia has made some progress with the strengthening of its *statistical capacities*, and increased resources are being made available. Further efforts are, however, needed in areas including regional structures, setting of priorities, staff training, and ensuring appropriate staffing in areas relevant for EU integration. **Therefore, this priority has been partially met.**

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

The latest edition of Latvia's National Programme for the Adoption of the *Acquis* (NPAA, known in Latvia as the National Programme for Integration into the European Union) was adopted by the government in July 2001. No significant structural changes were introduced this year, but the annex with tables analysing institution building requirements for the individual accession negotiation chapters, which had been added to the NPAA in 2000, was almost completed. In addition, the part dealing with the financial implications of the various measures has been further refined. The NPAA is divided into four main parts in accordance with the Copenhagen political, economic and *acquis* as well as the Madrid administrative capacity criteria. The main text is complemented by technical tables with project proposals and implementation plans, as well as financial tables for each action. The updated NPAA again contains extensive references to the Accession Partnership priorities and the analysis of the Commission's Opinion and Regular Reports and also aims at coherence with developments in the framework of the accession negotiations. The implementation of the NPAA continues to be monitored via an electronic management system accessible to all line ministries.

The information provided in the 2001 NPAA is again generally consistent with commitments made in other contexts or documents, including the meetings under the Europe Agreement and EU accession negotiations. Overall, the deadlines provided in the 2001 NPAA again appear to be realistic. However, in some areas, such as taxation, the deadlines do not cover all necessary measures, and in other areas, such as fisheries, the deadlines do not all seem feasible. Where possible, and as suggested in the 2000 Regular Report, indications as to the planned entry into force of new legislation (rather than only the planned date of adoption) should be included.

The 2000 NPAA had already covered the medium-term perspective in more detail than the previous version. The 2001 NPAA contains further improvements in this respect. In a number of sectors a more detailed coverage of the *acquis* and accession requirements would, however, still be desirable. This for example includes the free movement of goods (non harmonised area), freedom to provide services (BCCI directive), company law (intellectual property), competition (new *acquis* on vertical restraints, block exemptions on R&D agreements and on specialisation agreements) taxation (excise duties, Code of Conduct for Business Taxation), consumers and health protection (access to justice, consumer organisations), and external relations (dual use goods). Some chapters also contain information that is treated in a different chapter in the EU context, which may lead to some confusion (for example, the chapter Consumers and health protection of the NPAA deals with legislation on the labelling of goods).

The 2001 NPAA refers to the regional and local levels in a more extensive manner than previous versions. For example, information on the establishment of regional offices of the Consumer Rights Protection Centre is included. For the sake of completeness, the NPAA should cover all chapters of the *acquis*. The 2001 version for example does not contain any information on the

Common Foreign and Security Policy in the main part of the text; only an institution-building fiche for this chapter is included. The *acquis* chapters 28 (Financial control) and 29 (Financial and budgetary provisions) are covered jointly, which can lead to some confusion, as each chapter has a distinct *acquis* in the EC context.

Compared to the 2000 version, the 2001 NPAA includes more details on the administrative implications of the adoption of certain parts of the *acquis*. In a number of areas, more extensive coverage of the administrative aspects and needs would nevertheless still be useful. This includes, for example, the free movement of goods, where no information is provided for the non-harmonised area, Competition policy, and Industrial policy, where no information is provided about the implementing agencies (Latvian Development Agency, National Economic Council). The 2000 NPAA already aimed to provide more detailed indications on the staffing situation in the newly added tables on institutional needs (human resources and training) by negotiation chapter (*see above*), and with the 2001 NPAA, this package of tables is now complete with the exception of Regional policy and the co-ordination of structural instruments.

For the 2001 version of the NPAA, substantial efforts were made to increase the coherence between the financial estimates of the NPAA and the draft Law on the State Budget 2002. The 2001 versions of the NPAA's financial tables cover the years 1999 to 2003. An effort has been made to link the planned availability of funds to the planned entry into force of new legislation and the resulting new requirements, and a separate column for this has been added to the financial tables. The fact that the principle of long-term budget will now be applied in the preparation of the national budget should allow for a yet more realistic picture on the real financial implications of preparing for EU membership in the next updates of the NPAA. While the 2000 Regular Report had suggested that the aggregate sums provided in the financial tables should be broken down (development of legislation ; cost of additional staff ; cost of training for staff etc.), this has not yet been done in the 2001 version.

The NPAA has established itself as a national management framework for the pre-accession period. Reference to related documents (for example the Rural Development Plan) and instruments (PHARE, ISPA, and SAPARD) is made. The 2001 version of the NPAA also states that yet closer coherence between the NPAA and the National Development Plan, which is still under preparation, will be established.

While an outline of the structure of the NPAA is included at the beginning of the document, the user-friendliness of the document is nevertheless somewhat hampered by the sheer size of the complete NPAA with its multitude of annexes and tables.



Annexes

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

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

X = Convention ratified

O = Convention **NOT** ratified

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

Statistical data

	1996	1997	1998	1999	2000
Basic data	in 1000				
Population (average) ³⁰	2.456	2.431	2.408	2.389	2.373
	in km²				
Total area	64.589	64.589	64.589	64.589	64.589
National accounts	1000 Mio Lats				
Gross domestic product at current prices	2,8	3,3	3,6	3,9	4,3
	1000 Mio ECU/euro				
Gross domestic product at current prices	4,0	5,0	5,4	6,4	7,7
	ECU/euro				
Gross domestic product per capita ³¹ at current prices	1.600	2.000	2.200	2.700	3.300
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	3,3	8,6	3,9	1,1	6,6
	in Purchasing Power Standards				
Gross domestic product per capita ³² at current prices	4.700	5.300	5.600	5.900	6.600
Structure of production	% of Gross Value Added³³				
- Agriculture	9,0	5,8	4,3	4,5	4,5
- Industry (excluding construction)	26,4	27,4	23,4	19,9	18,5
- Construction	4,7	4,8	6,9	7,1	6,8
- Services	59,9	62,0	65,4	68,5	70,2
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	89,3	85,7	85,9	83,3	81,6
- household and NPISH	67,6	66,6	64,5	62,8	62,5
- general government	21,6	19,1	21,4	20,5	19,0
- Gross fixed capital formation	18,1	18,7	27,3	25,1	24,6
- Stock variation ³⁴	0,7	4,0	0,3	1,9	2,6
- Exports of goods and services	50,9	51,0	51,3	43,8	45,8
- Imports of goods and services	59,0	59,5	64,8	54,1	54,5
Inflation rate	% change over the previous year				
Consumer price index ³⁵	17,6	8,4	4,3	2,1	2,6
Balance of payments	in Mio ECU/euro				
-Current account	-220	-305	-576	-600	-543
-Trade balance	-629	-748	-1.007	-957	-1.158
<i>Exports of goods</i>	1.172	1.621	1.798	1.774	2.232
<i>Imports of goods</i>	1.801	2.369	2.805	2.731	3.390
-Net services	302	327	271	315	477
-Net income	33	49	48	-44	31
-Net current transfers	74	68	111	87	107
- <i>of which: government transfers</i>	40	29	73	57	39
- FDI (net) inflows	301	460	318	324	443

³⁰ Calculation of the CSB of Latvia based on the 2000 Population and Housing Census provisional results.

³¹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

³² Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

³³ Including FISIM.

³⁴ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

³⁵ Changes in Methodology: PROXY HICP since 1998 (see methodological notes).

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	-1,3	1,8	-0,7	-5,3	-2,7
General government debt	:	:	10,6	13,6	14,1

Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	9,6	10,5	16,2	25,2	24,6
	as % of exports				
Gross foreign debt of the whole economy	18,8	20,6	31,6	57,5	53,8
Monetary aggregates	1000 Mio ECU/euro				
- M1	0,6	0,8	0,9	1,0	1,3
- M2	0,6	0,9	1,0	1,2	1,5
- M3	0,9	1,3	1,4	1,7	2,2
Total credit	:	0,9	1,1	1,5	2,0
Average short-term interest rates	% per annum				
- Day-to-day money rate	13,1	3,7	4,4	4,7	3,0
- Lending rate	:	14,8	12,9	13,1	10,2
- Deposit rate	:	5,9	5,3	5,1	4,4
ECU/EUR exchange rates	(1ECU/euro=..Lats)				
- Average of period	0,700	0,659	0,660	0,608	0,559
- End of period	0,696	0,657	0,669	0,588	0,576
	1993=100				
- Effective exchange rate index	198,8	180,0	203,8	287,7	316,3
Reserve assets	Mio ECU/euro				
- Reserve assets (including gold)	596	703	687	907	987
- Reserve assets (excluding gold)	522	638	624	836	915

External trade	Mio ECU/euro				
Balance	-690	-926	-1230	-1148	-1435
Exports	1.137	1.474	1.619	1.616	2.023
Imports	1.827	2.400	2.849	2.764	3.458
	previous year=100				
Terms of trade	:	:	101,9	101,8	92,5
	as % of total				
Exports with EU-15	44,7	48,9	56,7	62,6	64,6
Imports with EU-15	49,2	53,1	55,2	54,5	52,4

Demography	per 1000 of population				
Natural growth rate	-5,9	-6,1	-6,6	-5,6	-5,1
Net migration rate (including corrections)	-4,2	-3,9	-2,4	-1,8	-0,7
	per 1000 live-births				
Infant mortality rate	15,9	15,3	15,0	11,3	10,4
Life expectancy :	at birth				
Males:	63,9	64,2	64,1	64,9	64,9
Females:	75,6	75,9	75,5	76,2	76,0

Labour market (ILO methodology)	% of labour force				
Economic activity rate	59,8	59,7	58,8	58,2	56,8
Unemployment rate, total	18,3	14,4	13,8	14,5	14,6
Unemployment rate, males	18,9	14,3	13,5	15,5	15,6
Unemployment rate, females	17,7	14,6	14,1	13,3	13,5
Unemployment rate of persons < 25 years	29,0	24,9	25,5	24,6	23,6
Unemployment rate of persons >= 25 years	16,6	12,9	12,1	13,0	13,5
	as % of all unemployed				
Long-term unemployment rate	59,5	55,8	52,6	53,3	58,1
Average employment by NACE branches	in % of total				
- Agriculture and forestry	17,9	20,6	18,8	15,3	13,5
- Industry (excluding construction)	20,8	21,4	20,7	20,2	20,3
- Construction	5,9	5,4	5,5	5,9	6,0
- Services	55,4	52,6	55,0	58,6	60,1

Infrastructure	in km per 1000 km²				
Railway network	37	37	37	37	36
Length of motorways	0	0	0	0	0
	km				

Industry and agriculture	previous year=100				
Sales of industrial production volume indices	105,5	113,8	103,1	94,6	103,2 P
Gross agricultural production volume indices (in prices 1993)	94,3	102,0	90,1	90,5	103,9

Standard of living	per 1000 inhabitants				
Number of cars	155	178	201	221	235
Main telephone lines	299	306	310	307	311
Number of subscriptions to cellular mobile services	12	32	70	117	170
Number of Internet subscriptions	:	:	:	:	:

Methodological Notes

Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonized Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1997 (rates from 1998).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series for Latvia are presently available from 1998 only; the 1996-97 data are an approximation derived from the IMF's GFS methodology.

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

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

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

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

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

External trade

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

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

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

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

Demography

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

Labour force

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

- Labour force: employed and unemployed persons (according to the ILO definitions).
- The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, self –employed or unpaid family workers. Members of armed forces and women on child-care leave are included.
- The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

have no work,

are actively seeking a job 4 weeks and,

are ready to take up a job within a fortnight.

Unemployment rate (by ILO methodology). LFS monitors the population aged 15 years and over. LFS excludes persons on compulsory military service and persons living in non-private households. Employees on maternity leave and child care until 3 months are excluded. Data covering the period from 1996 to 2000 refer to November in each year.

Data on long-term unemployment revised and for all years cover persons who are without job and could not find it 12 month and more (before revision 13 month and more).

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

Infrastructure

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

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

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

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

Industry and agriculture

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

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

Standard of living

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

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

Number of main telephone lines – number of telephone lines connecting the subscriber's terminal equipment to the public switched network and which has a dedicated port in the telephone exchange equipment.

Sources

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

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