

# **1999 REGULAR REPORT**

**FROM THE COMMISSION**

**ON**

**LATVIA'S**

**PROGRESS TOWARDS ACCESSION**

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## **A. Introduction**

### **a) Preface**

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

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

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

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

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

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

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

examines the extent to which Latvia has addressed the short term priorities and started to address the medium term priorities set out in the Accession Partnership.

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

This report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis*, the information provided in the context of the analytical examination of the *acquis* (screening) were additional sources of information. Council deliberations and European Parliament reports and resolutions<sup>1</sup> have been taken into account in the preparations. The Commission also drew on assessments made by various international organisations and in particular on contributions from the Council of Europe, the OSCE and the international financial institutions as well as non-governmental organisations.

## **b) Relations Between the European Union and Latvia**

### *Developments under the EU-Latvia Europe Agreement (including bilateral trade)*

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

The second meetings of the Association Council and the Association Committee were held in February and June 1999 respectively. The system of sub-committees continues to function as a forum for technical discussions.

Since the issuing of the Commission's last Regular Report, the Joint Parliamentary Committee comprising representatives of the Latvian and European Parliament met in, January 1999 and will meet in October 1999.

Latvia's trade with the EU has continued to increase. During 1998 Latvian exports to the EU accounted for 56,6% of total exports (Germany 15,6%, UK 13,5% and Sweden 10,3%). In the first three months of 1999, it accounted for 64.9%. Imports from the EU amounted to 55,3% (Germany 16,8%, Finland 9,5% and Sweden 7,2%) in 1998 and 55.7% in the first three months of 1999. Latvia's main export products to the EU were wood, mineral and textile products, while the most important import

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

products from the EU to Latvia were machinery, agricultural goods and transport equipment.

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

Latvia introduced a temporary safeguard measure on imports of pig meat. This took the form of an additional duty of 70% (but not less than 0.34 Lats/kg) for 200 days on an *erga omnes* basis in the framework of the WTO, consequently including the Community, which came into effect on 1 June 1999. Several rounds of consultations under the Europe Agreement on this matter have taken place. An anti-dumping case against Latvian exports of hardboard to the EU was closed earlier this year.

Current discussions in the institutional framework of the Europe Agreement focus particularly on the implementation of the Accession Partnership priorities (see below), and seek to achieve progress in areas like public procurement, capital movements and customs modernisation. As concerns the direct investment regime applicable in Latvia, restrictions on foreign ownership in the sectors of radio and television, logging and the acquisition of land are incompatible with the Europe Agreement. It is foreseen that the restrictions will be abolished in 1999. Restrictions in the area of security services were introduced in 1998. In the area of industrial and conformity assessments, negotiations on a Protocol on European Conformity Assessment (PECA) started in October 1998 and further discussions took place in July 1999. A new protocol to the Europe Agreement providing for the liberalisation of trade in textiles entered into force in 1999.

In 1998/1999 Latvia carried out a first Joint Assessment with the Commission Services on medium term economic policy priorities.

#### *Accession Partnership/ NPAA*

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

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

#### *Pre-Accession Aid : Phare*

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

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

and to reinforce economic and social cohesion including the effects of restructuring in important sectors of the economy.

The Phare programme has allocated approximately €248 million to Latvia during the period 1992-1999.

The 1999 Latvia Phare Programme consists of a national allocation of €16,1 million to support in particular the following priorities:

- support to Language training for non-Latvian speakers (€0,5 million)
- reinforcement of the institutional and administrative capacity in particular in the field of customs and taxation (€2,4 million)
- support to the integration of Latvia into the Internal Market – approximation of law, food control and statistics (€5 million)
- the strengthening of the co-operation in the field of Justice and Home Affairs - border management (€4,5 million)
- support to infrastructure and transport investments (€1,8 million)
- support towards the participation in various Community Programmes (€ 1,9 million)

An additional €3 million have been allocated for the 1999 cross-border co-operation (CBC) programme within the Baltic Sea Region, and approximately €8 million from the 1999 Pre-ins (catch-up) Facility in support of anti-corruption and industrial restructuring activities.

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

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

Overall the impact of Phare has been positive. Effective transfer of know-how and scarce equipment and financial resources has taken place in a number of important fields such as SME development, development of the banking sector, and industrial restructuring. Phare has furthermore provided assistance in strengthening capacities of several institutions such as the European Integration Bureau, the Legal Bureau of the Parliament, the State Chancellery, and the Ministry of Finance

Phare played for example a particularly important role in :

- the promotion of social integration in Latvia by being the most important supporter of the Latvian Language Training Programme (a total of € 2 million since 1996), a multi-donor programme administered by the United Nations Development Programme. It aims to enhance the Latvian language teaching capacity in minority schools, providing language training opportunities for

targeted groups of adults and promoting social integration at the community level by supporting extra-curricular activities such as clubs and summer camps for youth of various ethnic groups and by working with media and press. After a successful initial period of two years, the programme has now entered its second phase (1998-2000). So far, over 19000 persons have benefited from the programme.

- The construction of a control tower (€ 1,5 million) in Riga Port which accommodates a high performance navigation control system. The tower, already operational, has proved to be of great importance to Riga Port which has a capacity of approximately 15 million tons and which handles containers, general and bulk cargo. In view of further improving maritime safety Phare has also financed several safety installations such as systems for echo sounding, radio communication for search and rescue and renovation of navigational aids, amounting to a total of €1,75 million.

#### *Phare Management System*

The Phare management system was reformed in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare activities. Phare assistance in Latvia has been implemented on a centralised basis since its beginning. As of 1997, the implementation was gradually decentralised. The authorities in the partner country have gradually taken over responsibility for contracting and payment of the assistance. However the European Community's Financial Regulation requires that the Commission supervise the contracting procedure and endorse any contracts financed from Phare signed by the partner country before they go into effect. The regulation co-ordinating assistance from Phare, SAPARD and ISPA, which was approved in June 1999 will allow the Commission to move to ex post control of contracting where the Financial Control exercised by the partner country is deemed by the Commission to be sufficient. This possibility will be reviewed on a country-by-country, sector-by-sector basis and introduced gradually.

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

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

Since April 1999, a National Fund located within the Latvian Ministry of Finance is the central entity through which Phare and other EU funds will be channeled. The National Fund has overall responsibility for financial management of funds and for ensuring that Phare procurement rules, reporting and financial management are respected, and that there is a proper project information system. A Central Finance and Contracting Unit was already established in 1998 and is responsible for the technical implementation of the decentralised programmes (tendering, contracting,

payments). As regards the investment side of Phare, two Implementing Agencies have been established in the Ministries of Transport and Environmental Protection and Regional Development which will be responsible for the implementation of specific projects.

#### *Pre-Accession Aid 2000*

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

In the years 2000-2002 total financial assistance available will amount to €90 million for Phare, €66 million for Sapard and between €105 and 165 million for Ispa.

#### *Twinning*

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

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

For Latvia, eight projects have so far been twinned under Phare. Germany and France have been selected for a project to modernise the agricultural sector, while Sweden and Denmark are working with Latvian partners on two projects to strengthen the country's capacity to enforce legislation on water and on hazardous waste. Germany, assisted by the UK, will help the Latvian Ministry of Finance develop its capacity to assume the obligations of the Internal Market. In the area of Justice and Home Affairs, the reform of the Latvian court system is supported, and the Frontier Guard of Finland is co-operating with its Latvian counterparts to develop training in border control procedures. Finland is also leading a project to prepare for the administration of Structural Funds

Twinning is foreseen for three projects under the 1999 programme and will include capacity building of food control bodies at national and regional level, and strengthening of the tax and customs administration.

#### *The screening process*

The analytical examination of the acquis (screening) has been concluded for Latvia except for agriculture and Schengen which are foreseen to be held in October 1999.

## **B. Criteria for membership**

### **1. Political Criteria**

#### *Introduction*

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

“Developments in Latvia confirm the conclusion of the Opinion that Latvia's institutions continue to function smoothly and that it fulfils the Copenhagen political criteria. Major progress has been made in dealing with weaknesses identified in the Opinion and Accession Partnership priorities, in particular as concerns the integration of non-citizens. Confirmation by referendum of the parliament's decision to end certain restrictions on citizenship brings Latvia into conformity with international standards and should facilitate the naturalisation process.

Continuing attention needs to be paid to public administration reform, strengthening of the judiciary, the fight against corruption and the promotion of Latvian language learning among non-citizens.”

In the 1998 Accession Partnership with Latvia “measures to facilitate the naturalisation process to better integrate non-citizens including stateless children and enhance Latvian language training for non-Latvian speakers” are mentioned as a short-term priority, and “accelerated integration of non-citizens by facilitating the naturalisation process including for stateless children” is mentioned as a medium-term priority.

#### *Recent developments*

A number of changes have taken place in the government in Latvia in the last year. Following general elections in October 1998 with a participation rate of approximately 73%, a centre-right minority government was formed, which benefited from the support of the Social Democrats. In February 1999, the government then signed a cooperation agreement with the Social Democrats, who were allocated a ministerial post (agriculture) in the government. Four additional cabinet-rank ministerial posts were added to the government in May 1999.

Presidential elections took place in June 1999. The new President, the first woman in Latvia to become President, has no party affiliation. In July, the Prime Minister announced his resignation, and a new center-right majority government, smaller in size than the previous one, was approved by the Parliament two weeks later.

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

## 1.1. Democracy and the Rule of Law

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

### *The Parliament*

A number of measures have been introduced in the last year which aim at improving the practical functioning of the Parliament in terms of the adoption of legislation which conforms with the *acquis*. Within the Legal Bureau of the Saeima, measures were taken to increase the capacity to assess the compatibility of draft legislation with EC law and steps have been taken to assemble a basic EC legal library for reference purposes.<sup>2</sup>

### *The Executive*

While important steps had been taken in 1997 with the creation of a Public Administration Reform Council and a Bureau for Public Administration Reform, it is regrettable that little progress has been made since the last Regular Report in advancing with Public Administration Reform. The civil service is not yet sufficiently protected by an adequate statute.

A new Civil Service Law and a concept for regional reform were both still at draft stage at the time of completion of this report. The appointment of a Special Minister in charge of Public Administration in May 1999 confirmed the present political commitment of the government to the process.

Significant further efforts are needed to streamline the public administration, to retain qualified staff and to further improve the budgetary mechanism and internal audit system within the ministries where this has not yet been done.

### *The Judiciary*

Recent developments include the following.

- The enhancement of the status of judges. With the entry into force of the amendments to the laws “On Judicial Power” and “On the Disciplinary Liability of Judges” in November 1998, a more objective system of evaluation (by Disciplinary Board of Judges) and granting of judicial qualifications degrees (by Judicial Qualification Board) has been installed and higher standards for qualifications of judges have been set. The system creates incentives for judges to promote their professional skills and qualifications. Life-long appointments for judges have been introduced by the new Law on Civil Procedure (see below). In addition, the basic salaries of judges have been raised at the end of 1998 and increased— albeit voluntary – possibilities for training of judges have been provided for. The number of vacant judge positions has further declined.

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<sup>2</sup> These measures were taken with the help of technical assistance from the EU Phare programme.

- The improvement in the functioning of the courts system. With the coming into force of a new “Law on Civil Procedure” in March 1999, delays of court proceedings have been shortened, *inter alia* by imposing stricter criteria for non-appearance in court hearings and regulating lawsuits *in absentia*. In addition, the computerisation of courts has progressed.<sup>3</sup>
- The adoption of the amended new Penitentiary Law in November 1999. The law improves the mechanisms for carrying out sentences, the establishment of a probation service and the application of alternative non-confinement punishments.

There have thus been important improvements compared to the previous year. Nevertheless, a number of issues still need to be addressed. A basic framework for the reform of the institute of court bailiffs was approved by the Cabinet of Ministers in March 1998. This transformed court bailiffs into an independent legal profession. However, the relevant legislation has yet to be adopted. Between the beginning of 1998 and 1999, there has been a slight increase in the total number of unsolved court cases (civil and criminal). During the first half of 1999, the number of unsolved civil cases has started to decrease, whereas the number of unsolved criminal cases has increased further. It is, however, too early to assess whether the new legislation adopted in March 1999 has had an impact on this backlog (see Administrative and judicial capacity). The infrastructure of courts (buildings, furniture, computers etc.) still needs to be improved considerably. Concerning prison sentences, time spent in pre-trial detention in prisons remained long (see below under section on civil and political rights).

### *Anti-corruption measures*

Latvia still faces a serious problem with corruption. Whilst progress has been made since the last Regular Report, a much greater effort is needed in order to make any significant progress in reducing the level of corruption.

The institutional framework has already been in place (i.e. the Corruption Prevention Council) since 1997. The Corruption Prevention Programme, which was adopted in February 1998, has been partly implemented. This year, the existing legal framework was complemented by the entry into force of the new Criminal Law in April 1999. The law ensures criminal liability for both public and private sector corruption.

Other measures taken since the last Regular Report include:

- the adoption of a Code of Ethics for officials of state and local government by the Corruption Prevention Council in October 1998
- the reinforcement of the Corruption Prevention Division of the State Revenue Service as well as the provision of training for its employees
- the creation of a department of financial analysis, auditing and control within the State Police in order to reveal corruptive practices

Latvia has ratified the European Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime in December 1998 and signed the Council of Europe Criminal Law Convention on Corruption in January 1999. Further

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<sup>3</sup> These measures were taken with the help of technical assistance from the EU Phare programme.

amendments to the Latvian Criminal Law will now have to be carried out to ensure that legal persons can be held liable for criminal offences such as active bribery, trading in influence and money laundering. Latvia is not yet a member of the Group of States Against Corruption (GRECO) but intends to join it after ratification of the Council of Europe Criminal Law Convention on Corruption. The other important anti-corruption instruments have not yet been signed, namely the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and the UN anti-corruption programme for Drug Control and Crime Prevention.

In 1998, 17 persons were convicted by courts of bribery (12 for passive bribery and 5 for active bribery). This is a reduction compared to the 47 convictions in 1997. In the first half of 1999, 13 persons were convicted.

In spite of the above measures, further sustained efforts are needed to ensure effectiveness in the fight against corruption both in economic and the political life. The legal framework needs to be completed, and the effective functioning of law enforcement institutions needs to be ensured. In addition, activities aimed at fostering awareness and changing perceptions should be undertaken.

Whilst it is difficult to quantify the level of corruption in any country, public perception in Latvia suggests that corruption is particularly acute in public bodies such as the customs service, the traffic police and the judicial system. The seriousness of the problem appears to be recognised at the highest political level. It remains to be seen, however, whether this political commitment can be translated into concrete action which will reduce the overall level of corruption in Latvia.

## **1.2 Human Rights and the Protection of Minorities**

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

Latvia has already acceded to most of the major international human rights instruments and has ratified the sixth Protocol to the European Convention for the Protection of Human Rights and Fundamental Freedoms, thereby abolishing the death penalty in Latvia, in May 1999 (see annex).

The Framework Convention for the Protection of National Minorities and the European Social Charter have still not been ratified.

### *Civil and political rights*

In October 1998, a Law on Access to Information was adopted, providing the public with guaranteed access to information at the disposal of state administrative and municipal authorities. Latvia was elected a member of the United Nations Human Rights Commission for the period of 1999-2001.

Unlike the previous year, demonstrations of pensioners (which included a large number of Russian speakers) on 3 March and of war veterans on 16 March passed by peacefully and without apparent interference by the authorities.

Good progress has been made in aligning refugee and asylum legislation to international standards as well as the Community *acquis*. In November 1998, a new reception center for refugees and asylum seekers was completed (Mucinieki). Conditions in the detention center for illegal immigrants give raise to some concerns.

The prison situation in Latvia further improved during 1998. With the coming into force of the amendments to the Penitentiary Code in October 1998, improved mechanisms for early or supervised release and parole, for establishment of a Probation Service and the application of alternative non-confinement punishments were introduced. Intensive reconstruction work on the prisons is on-going and in 1998 the Riga Central Prison as well as some other prisons were modernised. Professional training for guards has been introduced in several prisons. Nevertheless, the situation in some prisons remains substandard, and health and sanitary conditions especially have been reported critical. There are not enough personnel and equipment for the large numbers of prisoners. Many prisoners are detained for a long time before being tried. The situation is particularly serious for juveniles, where the length of pre-trial detention is not always in conformity with international standards. While their implementation has started, social rehabilitation programmes (in particular for juvenile delinquents) need to be introduced on a wider basis in the prisons (see above under section on The Judiciary).

Concerning the fight against racism and xenophobia, the new penal code, which came into force in April 1999, makes the violation of ethnic and racial equality a criminal offence.

As concerns the acquisition of land by foreigners, restrictions still exist (see sections on developments under the EU-Latvia Europe Agreement and on Capital Movements).

### *Economic, social and cultural rights*

Concerning the treatment of disabled persons, legislation to protect the rights of the mentally ill has yet to be adopted. While there have been improvements, the substandard conditions in some of the facilities for the mentally ill have given raise to some concerns.

In December 1998, a unit responsible for gender equality issue was created in the Ministry of Welfare, which started operating in March 1999.

According to new regulations passed in 1998, eligibility for unemployment benefits was restricted to those individuals for whom the social tax had been paid for nine months over the past calendar year. According to August 1998 data from the State Social Insurance Agency, there were more than 200,000 employees in Latvia for whom no social tax was being paid. In the event of unemployment these individuals would not be eligible for benefits.

### *Minority rights and the protection of minorities*

The Parliament adopted the law “on the status of stateless persons” in February 1999. Latvian accession to the 1954 UN Convention relating to the status of stateless persons is underway. The Parliament approved the law about this accession in September 1999.

#### **The naturalisation procedure**

Of Latvia’s total population of about 2.43 million, around 600,000 persons are non-citizens residents. 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 in October 1998. The previously existing “age windows” system was thereby abolished and stateless children born in Latvia after 21 August 1991 became eligible for citizenship. Practically all non-citizens residents in Latvia are now entitled to apply for citizenship.

Following the liberalisation of the Citizenship Law, rapid increases in the numbers of requests for naturalisation could be observed. In the first half of 1999, 7,756 persons requested citizenship, compared with 2,094 applications received in the first six months of 1998. In August 1999 alone, 1,148 applications were received, and 1,265 candidates were granted citizenship, compared to 298 requests and 417 granted in August 1998. Since February 1995, a total of 25,717 persons have applied for naturalisation, and 18,089 of these have been granted citizenship.

In addition to simplifying the procedures to apply for naturalisation, the obligatory tests in Latvian history have also been made easier by further reducing the number of questions to 93 (310 in 1996) in accordance with recommendations made by the OSCE. The naturalisation fees have been reduced for several groups of candidates, and only roughly half of all candidates now pay the full fee. The pass rate of the naturalisation test is about 95%. As an experiment, pupils who passed the final school exam in Latvian language could apply to be exempted from the naturalisation language test. Following the centralised school exams on 1 June 1999, 2433 pupils participated in the unified test, but given the lack of a legal basis for this procedure, the results could not be considered. The Naturalisation Board and the Ministry of Education and Science are also cooperating to explore whether the twelfth grade history exam could be combined with the history/constitution text for naturalisation, as it appears that the twelfth grade exams are more difficult than the naturalisation tests. Eventually, the respective governmental regulations would have to be changed to make this possible.

The major outstanding problem in the first half of 1999 concerned the capacity of the Naturalisation Board and its branches to receive and process the increasing numbers of requests within the necessary time limits. Additional funding was thus allocated to the Naturalisation Board in April and May 1999 by the Cabinet of Ministers. In addition, computer equipment was made available with the help of the Phare programme.

As concerns stateless children, even though all children born after August 1991 are eligible (around 19,000), the number of applications has remained low. Altogether, 95 children had been granted citizenship by the end of August 1999. This is mostly because parents wish to naturalise at the same time as their children.

Latvia now fulfils all recommendations expressed by the OSCE in the area of citizenship and naturalisation. However, it remains important to continue to distribute information on the citizenship requirements, since surveys indicate that many non-citizens are hesitant to apply for citizenship because of lack of information on the procedures. The Latvian Naturalisation Board has, with Phare-assistance, established an information centre to ensure wider information on the requirements for obtaining Latvian citizenship.

### **Special passports for non-citizens**

The total number of special passports printed since 10 April 1997 amounted to 468,738 by mid-September 1999, representing 78% of eligible non-citizens (compared to more than 40% by August 1998). The old Soviet passports will become invalid by 1 January 2000 and have to be exchanged for Latvian non-citizens' passports. It should, however, be noted that travelling to Russia is easier with a non-citizen passports than with a Latvian passport.

### **Integration of minorities**

A number of important developments have taken place during the last year.

The framework document of a National Programme for "The Integration of Society in Latvia", which had been approved by Cabinet of Ministers in September 1998, was widely discussed in the country during a public hearing phase from March to May 1999. The initial document covered Education, Language, Culture, Citizenship and Naturalisation, Repatriation, Migration and Cooperation with Latvians abroad, Information, NGOs, Regional Aspects, Support for Integration-related Research and Integration-related Institutions. This process, lead by a Steering group created in February 1999 and chaired by the Head of the Naturalisation Board, allowed for a large number of actors (officials, academics, politicians, consultants, NGOs, representatives from international organisations etc.) to voice their views and concerns, thus spurring a public debate on this important issue. The Programme was revised based on the comments received and re-submitted to the Cabinet at the beginning of August. During the autumn, the programme itself will be elaborated and submitted to the government by the end of year.

Since currently, about 43% of the population has a language other than Latvian as a first language, language training will remain one of the key instruments for the integration of the ethnic minorities in the years to come. Following a very successful first phase (1996-1998), an agreement on the second phase of the National Programme for Latvian Language Training was signed in December 1998. With the continued support of a number of international donors, of which EU Phare is the most important one, the programme has offered language courses to teach Latvian and to train further trainers. More than 8500 persons have benefited from the programme during the first half of 1999. The programme also includes activities to promote

integration at the community level (summer camps, youth clubs etc.) and the provision of modern teaching materials. There is, however, still a significant shortage of language teachers, and the Latvian government will have to earmark more funds for language training in the coming years.

A new Education Law was adopted in October 1998, and the government has started to adopt implementing regulations. Schools with a language of instruction other than Latvian had to choose one of the four bi-lingual teaching models by August 1999, or, alternatively, suggest a genuine model, subject to approval. Teachers at minority schools had to demonstrate a certain level of proficiency in Latvian, or else be subject to dismissal. In a number of cases, falsified language certificates were detected.

A Language Law was adopted by the Parliament in July 1999. The Law was not promulgated by the President following the concerns voiced by the OSCE, the Council of Europe and the European Commission at several occasions during the first half of 1999 as to the possible incompatibility of the text with international and Community standards as enshrined by the Europe Agreement. The Law as adopted does not sufficiently integrate standards of proportionality and precision. It considers the mandatory use of the state language in the private sector as being the rule and not the exception. Its provisions are worded so broadly that they could impair the exercise of rights and freedoms guaranteed under the Europe Agreement, such as for example the exercise of business activities for enterprises from the European Union (see below section on the four freedoms). Certain aspects of the Law are left to regulatory acts to be approved by the Cabinet of Ministers, leading to legal uncertainty as to the precise requirements the Law would impose. The Law will be reconsidered by Parliamentary Committees following the decision of the President in July 1999. The final adoption of the Law is envisaged for 9 December 1999.

Linguistic restrictions are also apparent in legislation other than the Language Law. The Law on Television and Radio holds that all films to be shown on television must be dubbed into the state language or have Latvian subtitles. The amount of permitted time to broadcast in foreign languages has been decreased from 30% previously to 25% in October 1998. The election Law prescribes language requirements for Members of Parliament.

Several other elements limiting the integration of non-citizens still persist in the economic sphere. Non-citizens are still not allowed to practise some professions (lawyer, armed security guard and private detective) on the grounds of state security and the government intends to review these in the year 2000.

### **1.3 General evaluation**

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

## 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 the 1998 Regular Report, the Commission concluded that “Latvia had continued to make progress in establishing a market economy and was well on the way to being able to cope with competitive pressure and market forces within the Union in the medium term”.

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 1998 Regular Report.

### 2.2 Economic developments

Following a rapid growth in economic activity, the development of the Latvian economy since the second half of 1998 has been significantly affected by the Russian crisis. Despite Latvia’s continued strong integration into EU markets, the reduction in trade links with Russia hurt some export sectors. As a result, growth in real GDP in 1998 slowed to 3.6% overall, and output contracted in the first quarter of 1999. The crisis led to a widening of external imbalances and to the emergence of a deficit on the budget. The banking sector has also been affected, but systemic risk has been avoided thanks to stringent measures introduced by the supervising authority. Overall, the Latvian authorities responded to the crisis with an appropriate mix of policies. The new Latvian government is also continuing with the remaining reform agenda.

#### *Macroeconomic developments*

In 1998, real GDP grew by 3.6%, reflecting continued but decelerating growth in the first half of the year and a gradual slowdown in the second half leading to a contraction in the final quarter. Domestic demand remained relatively robust

throughout the year with real household and government consumption growing by over 5% each, and fixed capital investment growing by over 11%. The contribution of net exports to growth was negative as real export growth fell to 6.6%, while real import growth accelerated sharply to 16.9%. Output continued to contract in the first half of 1999, by 2.1 % year-on-year.

Sectors oriented towards domestic activity such as wholesale and retail trade and construction continued to grow strongly. However, export-oriented sectors experienced a considerable slowdown in real gross value added. Growth in the manufacturing sector fell to 3.4% in 1998 from 17.1% in 1997. The transport and communications sector, which includes the transit sector, contracted in the second half of 1998, as an increase in the volume of some exports, notably oil from Russia, was not sufficient to compensate for the decline in export in the opposite direction. Agricultural output fell by 4 percent, mostly due to strong declines in crop production while food exports also suffered from the Russian crisis.

Agricultural employment also fell by 2 percent in 1998, although agriculture's share in total employment remained at 19 % - this is compared with a share of only 5% in GDP.

The labour market has been affected by the economic downturn. Registered unemployment has risen, reaching 9.9% by the end of July 1999, after having fluctuated at around 7% between 1997 and mid-1998. The rate of jobseekers, which is broadly equivalent to the ILO definition unemployment rate, remained higher than the registered unemployment rate but showed a continued reduction in the unemployment rate throughout 1998, hinting at lower labour market participation.

The trade deficit for 1998 widened to 17.6% of GDP. Since the emergence of the Russian crisis in August 1998, exports to the CIS have been roughly one half of their previous level while exports to the EU have continued to grow strongly, but not enough to offset the reduction in exports to the East. This was combined with a deterioration of the service balance. As a result, the current account deficit almost doubled to 11.1% of GDP. In the first quarter of 1999 the situation has improved, as imports have started to fall leading to a narrowing of the trade and current account deficits to 11.7% and 8.7% of GDP respectively.

After the record high inflows of foreign direct investment in 1997 (net FDI in 1997 was 9 % of GDP), inflows of foreign direct investment slowed in 1998 by around a third. The surplus on the financial account of the balance of payments was not affected and it increased in 1998, partly due to the repatriation of private Latvian funds invested abroad. Overall, there was an increase in the level of reserves.

Inflation in Latvia has continued on its downward path. By August 1999 12-month inflation was 2.1% compared to 3.5% in September 1998. Over this period, food prices started to grow after falling considerably during the summer of 1998. Low oil prices contributed to lower inflation in the last quarter of 1998.

Monetary policy continues to focus on maintaining the fixed exchange rate peg to the Special Drawing Rights basket of currencies. The emergence of the Russian financial crisis led to immediate concerns about the health of some banks; liquidity in the

interbank market dried up, and broad money supply fell as depositors withdrew cash from the affected banks. In August the Bank of Latvia injected the banking sector with considerable liquidity to shore up some of the problem banks. Between September and November, there was some downward pressure on the lats and the Bank of Latvia took some supportive measures. In the months following December 1998, the pressure dissipated and markets returned to previous levels. In the summer of 1999, the currency faced renewed strain, as markets were concerned about the size of the emerging budget deficit. The Bank of Latvia spent around €38 million on intervention to support the lats while the government took measures to reduce the deficit.

The real effective exchange rate of Latvia, appreciated significantly in 1998 as a result of the large depreciation of the Russian rouble and the Ukrainian hryvna. However, real exchange rates between Latvia and Western trade partners have remained relatively stable.

The general government budget for 1998 registered a financial surplus of 0.3% of GDP including privatisation proceeds. The large surplus accumulated the first half of the year was sufficient to cover the significant shortfall in budget revenues in the second half of the year as growth stalled.

Due to the general elections held in autumn 1998, the 1999 budget was not adopted until the middle of February 1999. The adopted budget was based on a growth forecast of 4% in 1999, and aimed for a general government deficit of 2.8% of GDP. As a result of the economic slowdown, revenues have so far been considerably below forecast while some expenditure items have grown sharply (e.g. on unemployment benefits), leading to the emergence of a deficit on the state budget. In order to limit the size of the overall deficit, in August the government issued a supplementary budget cutting expenditures back sharply. The end-year deficit is expected to be in the region of 3.5% of GDP.

In order to control expenditures further, at the same time as submitting budget amendments, the Government also presented reforms to the pension law to reduce the pension bill. However, at the initiative of several parties, a petition has been started to hold a referendum on these changes - it remains to be seen whether the necessary number of signatures will be collected, but in the meantime the changes to the law cannot take effect.

In early 1999, in order to forestall the need to issue new government debt in 2000 to repay the G-24 debt issued in 1992, the Ministry of Finance decided to issue a Eurobond. The bond issue of €150 million five-year bonds at a headline coupon rate of 6.25% was endorsed by the market and easily sold, allowing the Ministry of Finance to reduce borrowing costs.

Main Economic Trends							
Latvia	1995	1996	1997	1998	1999 latest		
Real GDP growth rate	per cent	-0.8	3.3	8.6	3.6	-2.1	Jan-Jun

Inflation rate							
- annual average	per cent	25.0	17.6	8.4	4.7	2.1	Jan-Aug
- December-on-December	per cent	23.1	13.1	7.0	2.8	2.1	Aug
Unemployment rate, end-year							
- ILO definition	per cent	18.9	18.3	14.4	13.8	:	
General government budget balance	per cent of GDP	-2.9	-1.1	1.8	0.3	:	
Current account balance	per cent of GDP	-0.4	-5.5	-6.1	-11.1	-8.7	Jan-Mar
	million ECU/€	-14	-220	-305	-632	-118	Jan-Mar
Foreign debt <sup>4</sup>							
- debt export ratio	per cent	68	78	95	100	:	
	per cent	:	:	16	21	:	
- gross foreign debt	billion ECU/€	1.1	1.6	2.5	2.6	:	
	billion ECU/€	:	:	0.4	0.6	:	
Foreign direct investment net inflow							
- according to EBRD	per cent of GDP	5.5	7.3	9.1	3.4	:	
- balance of payments data	million ECU/€	187	298	454	270	77	Jan-Mar
<i>Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics, EBRD.</i>							

### *Structural reforms*

The privatisation process in Latvia is close to completion. By the end of 1998, 1056 of the 1097 enterprises allocated for privatisation had been transferred to majority private ownership. By June 1999, privatisation regulations had been adopted for 18 of the remaining 41 enterprises. The new government is committed to the sale of the remaining large state enterprises (Latvenergo, Lattelekom, and the Latvian Shipping Company). Privatisation terms for the Latvian Shipping Company were agreed by the government on 17 August but the privatisations of Latvenergo and Lattelekom have been delayed. Much work still remains on land and apartment privatisation.

At the beginning of 1999 excise taxes were increased on oil products, tobacco products, and alcohol in order to converge gradually to EU levels. In 1998, improved border controls led to an increase in the collection of excise taxes.

Developments in the banking sector have been affected by the Russian financial crisis. Over-exposure to Russian government securities led to the closure of one small bank and one medium-sized bank, and a third bank (Rigas Kommercbanka) was declared insolvent and put into rehabilitation. This bank, the fourth largest in Latvia, is an important holder of domestic deposits. In the midst of the crisis in 1998, the Bank of Latvia provided the bank with substantial liquidity to prevent a run on the system and restore confidence, but its operations were eventually suspended. A

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

rehabilitation programme has now been agreed involving foreign banks, including the EBRD, and the Bank of Latvia, which will acquire a major equity stake by capitalising the liquidity loan extended to the bank in 1998. Profits of the banking sector were also affected – the sector as a whole recorded a loss of €180 million in 1998 due to the revaluation of investments and an increase in provisions in line with new tougher prudential rules. Despite these difficulties, in 1998 Latvian banks continued to enjoy the confidence of foreign investors and attract foreign direct investment, particularly from Scandinavian banks. Since the second quarter of 1999, the sector is showing signs of recovery - profitability has improved and credit growth has resumed. Consolidation of the banking sector is continuing (there are currently 24 banks, of which only one is state-owned).

With regard to legislative changes in the financial sector, a law on the consolidated supervision of credit institutions came into force at the beginning of 1999, and the deposit guarantee fund was put in place in October 1998. The non-bank financial sector continues to develop. Thus far, two pension providers have been registered, but only one fund has been created. Similarly, three investment companies have been licensed, and an application has been made to create one fund. The insurance sector continues to grow and a law on insurance supervision was enacted in September 1999. The increase in the market capitalisation of the Riga Stock Exchange should resume at a faster pace once the current difficulties have passed. These developments are leading the way to a welcome deepening of the financial sector.

Structural reform in Latvia has advanced, with the development of privatisation plans for the Latvian shipping company and government commitment to the privatisation of the remaining large enterprises. Overexposure of some Latvian banks to Russia put the banking sector in some risk, but the authorities acted swiftly to prevent the problems spreading through the sector. The legal framework for the financial sector has been reinforced.

<b>Main Indicators of Economic Structure in 1998</b>		
Population (average)	thousand	2449
GDP per head	PPS-€	5500
	per cent of EU average	28
Share of agriculture <sup>5</sup> in:		
- gross value added	per cent	4.7
- employment	per cent	18.8
Investment-to-GDP ratio	per cent	20.1
Gross foreign debt/GDP	per cent	10.8
Exports of goods & services/GDP	per cent	47.7
Stock of foreign direct	billion €	1.4

<sup>5</sup> Agriculture, hunting, forestry and fishing.

investment, according to EBRD	€per head	561
<i>Source: National sources, OECD external Debt Statistics, IMF, EBRD.</i>		

## 2.3 Assessment in terms of the Copenhagen criteria

### *The existence of a functioning market economy*

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

Economic policy in Latvia continues to be reform-oriented. In general, there seems to be a good working relationship between the government and the Bank of Latvia, as has been shown by the co-ordinated response to the Russian crisis. Latvia was also one of the first candidate countries to complete a Joint Assessment of economic policy priorities in February 1999 with the European Commission, based on its medium-term economic strategy.

Macroeconomic stability has been preserved despite the external shock that the country faced in 1998. Overall, the Latvian authorities responded to the crisis with an appropriate mix of policies. Nevertheless, the size of the current account and the emergence of a fiscal deficit in 1999 will continue to require careful handling. Price stability has been achieved as inflation and wage developments in Latvia have been relatively subdued in recent years. Given the fixed exchange rate regime, the Government should continue to pursue prudent macroeconomic policies, especially fiscal policy, over the coming period to maintain economic stability.

Further budgetary reforms should be encouraged to provide a better matching between priorities and expenditure patterns as well as to ensure the medium-term sustainability of the public finances. The public investment programme should be used to finance investments and not be diverted towards operational costs; similarly privatisation proceeds should not be used to finance current expenditure. The undesirable practice of capitalising tax arrears entails a build up of contingent liabilities for the government and a softening of budget constraint for enterprises. The creation of public agencies, prompted by the desire to escape tougher public expenditure rules applying to Ministries, will also have negative medium-term implications for the public budgets. The current strengthening of public expenditure controls by the Treasury is a very favourable development. Moreover, Latvia's past progress in establishing the framework legislation for the introduction of a full three-pillar pension system should help in managing public finances over the medium-term.

Latvia is a member of the Baltic Free Trade Area and also of the World Trade Organisation. WTO accession has led to a further reduction in customs tariffs; only those for agricultural goods remain relatively high. However, in June 1999, provisional safeguard measures were applied to pigmeat and should be removed quickly.

Prices are generally determined by the free interplay of market forces. Administered prices represent around 24% of the consumer price index basket. Cost recovery pricing has been broadly achieved in the energy sector. However, there is still a need to expand and reinforce independent regulation in the utilities sector.

The legal framework for the enterprise sector is largely in place, but in order to foster the further development of the private sector, the detailed regulatory regime associated with doing business in Latvia needs to be simplified. Business registration procedures are relatively transparent and consistent but there remains an important problem of inconsistent interpretation and application of laws and regulations by different authorities after enterprise start-up. The Latvian government, in consultation with the business community and international investors, is working to eliminate the remaining problems. The implementation of bankruptcy procedures is improving, although its efficiency could still be enhanced by supervising and training administrators appointed by municipal courts.

The private sector now accounts for 65% of GDP and 69% of employment in Latvia. Nevertheless, the completion of the privatisation of the remaining large state-held enterprises, the concurrent establishment of competition and a clear regulatory regime in these sectors, could help to expand and improve the working of the private sector. A high proportion of agricultural land (90%) is in private hands, whilst a majority of non-agricultural land remains to be privatised. Land registration continues, with the State Land Cadastre almost complete, but with registration in the Legal Register still relatively low. Further clarification of property rights will be most beneficial to economic development.

The problems of Latvian banks in the wake of the Russian crisis while highlighting some remaining weaknesses in the sector, have also contributed to its strengthening. In 1998, the stock of outstanding loans grew by 40%, and at the end of 1998, total credit was 15% of GDP and loans were equivalent to 71% of total deposits. This shows that the main challenge for the development of the financial sector is to attract deposits in order to increase its capacity to channel savings to productive investment. Two positive market developments are the increase of the share of longer-term lending, and the fall in the share of non-performing loans. Moreover, banking supervision continues to be good and the Russian crisis led to a strengthening of the already tough prudential regulations. There are plans to merge all existing financial sector supervisors, including the supervision department of the Bank of Latvia, into a single body. However, supervision across sectors varies, and the unification in a single body of all existing capacity will not solve the problems of low supervisory capacity and poor quality, in particular in the new but fast growing area of pensions and investment funds.

Latvia can be regarded as a functioning market economy. The legislative framework for business activity is in place and considerable work is underway to improve its

implementation. Enterprise privatisation is close to completion. The authorities reacted appropriately to the Russian crisis. Macroeconomic stability has proven robust, and despite serious difficulties the financial sector continues to strengthen. The authorities will need to maintain macroeconomic stability over the coming period, especially through the effective control of public finances.

### *The Capacity to Cope with Competitive Pressure and Market Forces within the Union*

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

Latvia has made considerable progress in instituting market-based economic reforms and in establishing macroeconomic stability. The fall-out from the Russian crisis has provided the opportunity to deal with the remaining challenges for macroeconomic policy and the direction of further improvements.

Latvia has benefited from high rates of growth in fixed investment in recent years, and from strong inflows of foreign direct investment. However, at 20 %, the share of fixed investment in GDP is still relatively low and needs to be increased. In the coming years, it will be important to foster continued fast growth of both domestic and foreign investment. In the second half of 1998 the inflow of foreign direct investment slowed, as the privatisation of medium-sized enterprises neared completion and as the international economic environment worsened. Foreign direct investment picked up somewhat in the first quarter of 1999 with gross inflows reaching around 6% of GDP. Maintaining macroeconomic stability and creating the conditions for a strong recovery of growth will be key in encouraging investment.

In addition, the public investment programme which pools government and other sources of project financing, is set to increase in size over the coming years. However carefully selected public investment projects of a higher quality could greatly increase the efficiency of investment expenditure. Government should restore the expenditure on new investment projects, which was frozen in the face of the budgetary pressure this year.

Latvia has a relatively well-educated workforce but technological change will make necessary the re-training of large shares of the unemployed labour before they can be productively re-employed. Over the last year, the slowdown in economic activity has led to an increase in unemployment reflecting rapid market adjustment to the fall in

demand. The restructuring of the remaining large enterprises associated with privatisation may also lead to further labour shedding. In this respect measures to deal with structural unemployment and to develop Latvia's rural areas are to be welcomed.

Roughly two thirds of GDP in Latvia is produced by small and medium-sized enterprises, and they employ 60% of workers. Small and medium sized enterprises dominate in some major export industries, such as wood processing, foodstuffs, and the textile industry. The government is actively encouraging industrial development by a programme which provides training for the management of small and medium-sized enterprises and improves their access to outside finance. But, even when financing is available, such access can still be difficult because banks require high levels of collateral from new enterprises. State aids to enterprises are relatively low, but the government should discourage the practice of allowing tax arrears to build up as this is also a form of hidden state aid.

Latvia has made progress in reorienting its trade towards more developed economies, and merchandise trade to the EU in particular continues to grow strongly. The share of exports going to the EU has sharply increased to 64.9% in the first three months of 1999 up from the 56.6% recorded in 1998 and 48.9 % in 1997. Whilst this sharp increase in trade integration with the EU in 1998 and 1999 partly reflects the sudden contraction in exports to the CIS, it also indicates an underlying positive trend of export growth to the EU as a result of productivity gains, especially in manufacturing. Latvian exporters have also been successful in penetrating non-EU Western markets. The share of the EU in imports was 55.7% in the first three months of 1999.

The steady accumulation of foreign direct investment is gradually resulting in the upgrading of the productive capacity of industry. Product quality and marketing capability are also improving, allowing Latvian firms to consolidate their growing market share in EU markets, but further improvements are possible in these areas. In addition, as one would expect, there still continue to be large differences in the types of products imported from and exported to the EU, and little evidence of intra-industry trade. By far the largest export category to the EU is wood products, which represented 54.1% of exports in the first quarter of 1999, and textiles are the next largest export category. The largest category of imports from the EU is machinery and electrical equipment, high-value added goods Latvia needs to develop its infrastructure and continue the restructuring effort.

One of the more dynamic parts of the Latvian economy is its service sector. In 1998, over one third of exports were services and a large part of that is related to the transit of trade between East and West.

Agricultural land privatisation has been largely completed. The government has responded to profitability problems in the agricultural sector by taking several initiatives, including the introduction of a credit guarantee fund but the agriculture sector will need to go through a major reform and reductions in employment will be inevitable. At the same time almost half the Latvian agricultural budget was targeted at structural and rural development policies. Private large-scale farms make up 47% of agricultural land.

Progress continues to be made in putting in place the conditions necessary to encourage more dynamic business activity, leading to further increases in competitiveness in Latvia. However, both public and private investment should be increased to allowing for the greater integration of Latvian products into EU markets. The recent economic difficulties may in fact have accelerated this process by forcing a reorientation of enterprise activity. Provided it continues its reforms, Latvia should be able to cope with competitive pressure and market forces in the Union in the medium term.

## **2.4 General Evaluation**

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.

Economic activity in Latvia slowed significantly as a result of the Russian crisis. In this difficult external environment, macroeconomic and financial sector stability were maintained as a result of an appropriate policy response by the authorities. These adverse external circumstances have served as a catalyst for favourable developments in the financial and enterprise sectors; prudential regulations have been strengthened and the financial sector continues to deepen. Despite the slowdown in the European Union economy, Latvia has continued to increase its exports to the EU.

In the coming period, the authorities should focus on the maintenance of macroeconomic stability, in particular through the effective control of public finance. In addition, the Latvian authorities should work to remove the remaining bottlenecks to enterprise activity and investment. Privatisation of the few remaining large enterprises should be completed. Investment in infrastructure and developing of skills of the labour force should continue so as to sustain the long-term growth of productivity, and to continue to make Latvia an attractive destination for foreign direct investment.

### 3. Ability to assume the obligations of membership

This section aims to update the Commission's Regular Report of 1998 as concerns 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 puts into effect its objectives.

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

“Latvia has made significant progress in legislative alignment and in setting up implementation structures in particular in the areas of competition, banking services, transport and standards and certification. Because much of the legislation has been recently adopted, it is too early to assess the efficacy with which it will be applied in some fields. Latvia has recognised the importance of taking action on justice and home affairs by adopting a strategic approach which still needs to be fully implemented.

Latvia has addressed in a satisfactory manner most of the short term Accession Partnership priorities, in particular in respect to facilitating the naturalisation process. Intellectual and industrial property and data protection legislation should be adopted and attention needs to be paid to more fully addressing the administrative capacity priority.”

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

#### 3.1 Internal market without frontiers

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

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

In the field of *public procurement*, Latvian legislation is broadly in line with the *acquis*. The procurement market has been presented as a market that is in principle open to European companies, however, preference clauses are still in place. No new

legislation has been adopted since last year's Regular Report. Further attention needs to be paid to: bringing utilities within the legal framework, phasing out national preferences, addressing the absence of rules for below the threshold transactions and complaints and remedies procedures. The 1997 Law on Government and Municipal Procurement (PPL) needs to be modified in order to be fully in line with the *acquis*.

Review procedures contained in the 1997 law are unsatisfactory. The number of complaints brought before the administrative review body of second instance dropped from 12 in 1998 to 2 in the first half of 1999. The powers of the review procedures are rather weak and decisions of the review body cannot be executed. A new review system giving full competences to the review body will have to be introduced.

Latvia applied for membership of the Government Procurement Agreement under the World Trade Organisation.

The total value of procurement transaction in 1998 exceeded € 512 million and involved over 870,000 contracts (both at central and local government level), of which 1.2 % were concluded with suppliers of foreign origin.

With regard to *intellectual property* rights, current Latvian legislation, dating from 1993 is only partly in line with the *acquis*.

A specific regulation on measures of customs authorities for the protection of intellectual property was adopted in February 1999 and entered into force in June 1999. The new regulation allows for the confiscation of counterfeited or pirated goods. The new Criminal Code, which entered into force in April 1999, contains provisions governing criminal responsibility for infringement of copyright and illegal use of copyrighted work and neighbouring rights. In February 1999 Latvia became a member of WTO and joined the TRIPs agreement. In October 1998 Latvia adopted amendments to its Administrative Offences Code on illegal distribution of neighbouring rights to work and the use of copyrighted work without a license.

Greater efforts need to be made by Latvia at ensuring effective enforcement of legislation on intellectual property rights, in particular with regard to border control.

In the field of *industrial property* rights, Latvian legislation is broadly in line with the *acquis*. Legislation on trademarks and geographical indications entered into force in July 1999. In September 1999 the Latvian Parliament approved the accession to the Trademark Law Treaty and the Protocol relating to the Madrid Agreement.

The enforcement of industrial property rights remain a matter of concern, especially in the field of trademarks. The capacity of the judicial system has to be strengthened as does border enforcement.

Legislation on protection of *personal data* has not yet been adopted and (consequently) a supervisory body does not yet exist. Latvia has not yet signed the Council of Europe Convention on Personal Data Protection.

In the area of *company law*, no new legislation has been adopted since the 1998 Regular Report. Current legislation is only partly in line with the *acquis*.

Greater attention needs to be paid to the judicial capacity regarding the enforcement of company law and the capacity of courts to treat bankruptcy cases needs to be improved.

In the area of *accounting and auditing* Latvian legislation requires some revision in order to be fully in line with the *acquis*. No new legislation has been adopted since the 1998 Regular Report.

### *The four freedoms*

In its Opinion, the Commission recognised that the process of alignment was proceeding relatively well in Latvia with the exception of free movement of persons, and that if the pace of alignment was sustained, most requirements of the *acquis* would be met in the medium term.

The 1998 Regular Report showed that the process of alignment had continued in most areas, with once again the notable exception of mutual recognition of professional qualifications.

#### **Free movement of goods**

In the area of free movement of goods steady progress has been made in aligning Latvian legislation to the *acquis*.

The basic principles of standardisation (namely: transparency, consensus, voluntary nature and wide participation) are now in place following the entry into force of the Law on Standardisation in December 1998. Progress in the adoption of EN standards has been limited. Latvia has thus far established approximately 350 EN and has set an ambitious programme for adoption of all European standards by 2004.

Latvian framework legislation on conformity assessment and accreditation still need to be modified in order to be fully in line with the *acquis*.

Progress has been made with regard to implementation capacities. Independent institutions for accreditation, standardisation and certification all function well. The Latvian National Bureau of Accreditation was recognised as a full member of the European Accreditation Association in January 1999.

Market surveillance is still in a phase of development and considerable effort still needs to be made to bring it in line with Community standards.

With regard to sector specific legislation, several Government regulations have been adopted transposing the *acquis* on personal protective equipment, appliances burning gaseous fuels, simple pressure vessels, and electrical safety of equipment as well as several second level regulations implementing the legislation on the uniformity of measurement. In most of the areas mentioned progress was also made in the transposition of standards.

No new legislation has been adopted in the sectors relating to Directives on machinery, lifts, hot water boilers and toys, recreational craft and the rest of the Directives covering pressure vessels.

In the area of foodstuffs, Latvian legislation has been brought further in line with Directives on extraction solvents and flavourings, as well as on materials and articles in contact with food by way of regulations on the use of solvents permitted in food production, use of flavourings in food and obligatory requirements for materials and articles which come into contact with foodstuffs, adopted in the course of 1998.

Further modifications in the area of foodstuffs will be required in particular regarding mandatory certification, definitions and certain requirements on labelling and regulations on white sugar.

Framework legislation, which was adopted in 1998, largely transposes the *acquis* in the field of cosmetics. In the field of pharmaceuticals, legislation on labelling of medicinal products was adopted.

In the field of chemicals, important progress has been made through: the implementation of framework legislation on chemical substances and chemical products; the adoption of regulations on classification, labelling and packaging; as well as amendments to the regulation on drug precursors and the enforcement of legislation on the safety requirements for detergents.

Following the entry into force of legislation on protection of consumer rights protection, a regulation on the labelling of textiles has been adopted.

Since the 1998 Regular Report, there has been no significant progress with regard to medicines for veterinary use, motor vehicles, wood or glass.

### **Free movement of capital**

The liberalisation process in Latvia is well advanced, with only a small number of restrictions remaining. Since the last Regular Report no new liberalisation measures have been taken.

The remaining restrictions apply to direct investment in four sectors (lotteries and gambling; radio and television; logging; and security services), acquisition of land by foreign natural persons and certain types of companies (unlisted companies from countries with which Latvia has not yet concluded an investor protection agreement; in the case of the EU only Ireland) and restrictions on outward portfolio investment by insurance companies and private pension funds (see section on developments under the EU-Latvia Europe Agreement and chapter on political criteria).

### **Free movement of services**

In the field of free movement of services, Latvian legislation is broadly in line with the *acquis*.

Amendments to the Law on Credit Institutions, establishing rules on the consolidated supervision of credit institutions, entered into force in January 1999. Substantial

changes have been made to the liquidation procedure and the process of insolvency and bankruptcy. Progress has been made in relation to the Directive on Annual Accounts and Consolidated Accounts of *Banks*, with new rules in force since January 1999. Legislation on deposit guarantee schemes was adopted in October 1998 with the aim of protecting depositors' interests.

Progress was made in the implementation of the legislation on prevention of laundering of proceeds derived from criminal activity. In 1998, the Government adopted a regulation on unusual financial transactions.

A joint Task Force has been formed consisting of representatives of the Bank of Latvia and the Securities Market Commission to ensure transposition of Capital Adequacy Directives and to work out a uniform approach to trading activities both of credit institutions and investment firms.

Latvia has made important progress since the 1998 Regular Report in the transposition of the *acquis* on insurance. In September 1998 new legislation on insurance companies and insurance supervision, which contain the main prudential rules of the first stage Directives, entered into force. Furthermore, regulations relating to intermediaries and accounting have been adopted. Restrictions still exist with regard to the freedom of establishment of foreign branches in Latvia. Preparations should, in this respect, be made to ensure a substantial opening up of the Latvian insurance market.

Latvia implemented legislation on investment companies, which is in line with the *acquis*. The *Securities* Market Commission has approved a package of by-laws for the smooth functioning of investment companies. Following the adoption of these measures two investment companies were licensed. During 1998 the Securities Market Commission adopted several amendments in the field of reporting of securities transactions, public issues, disclosure of material events affecting issuers, and the licensing of securities professionals. These measures brought Latvian rules further into line with the *acquis*.

Latvia is making substantial progress in the field of payment systems. New regulations by the Bank of Latvia, which are partially in line with the *acquis* on cross-border credit transfers, entered into force in November 1998. As for the payments infrastructure, a new multi-lateral net settlement system for retail payments (automated clearing house) was introduced in November 1998.

### **Free movement of persons**

The necessary legislation on free movement of persons, freedom of establishment and mutual recognition of diplomas and professional qualifications has not been adopted yet. Particular attention will have to be paid to the law on the use of the Latvian language (see above chapter on political criteria).

### *Competition*

The Competition Law, which entered into force in January 1998, is closely aligned to the *acquis* and contains the main concepts of EC *anti-trust* rules (anti-competitive agreements, abuse of dominant position and merger control). Since the last Regular report, the Government has issued regulations on group exemptions concerning agreements on production specialisation, franchise agreements, agreements on joint research and development, licence agreements on patents and know-how, vehicle distribution agreements, as well as on agreements between insurance companies. To facilitate implementation of Government regulations, the Competition Council has approved and published methodical guidelines on how to compile notifications of collusion and statements of merger. During 1998, the Competition Council initiated 76 investigations (compared to 37 in 1997), and during the first half of 1999, has dealt with 45 cases (see administrative and judicial capacity).

With the adoption of a comprehensive *State aid* law in 1998 and with the introduction of a proper system of State aid control, Latvia has made significant progress in this field. Pursuant to the State aid law, which makes reference to Article 64 of the Europe Agreement, the State Aid Surveillance Commission can apply directly Community *acquis* in its assessment of State aid cases. The 1998 Annual Report on State aid has been further improved from previous years, and the 1998 data covers for the first time information on corporate income tax discounts in favour of microenterprises and companies with foreign capital as well as on tax extensions to be paid into the national budget. The annual reports contain most elements for an adequate inventory on existing aid. Information on new State aid projects is registered in a special electronic database. In 1998, the State Aid Surveillance Commission already took decisions on 8 projects (see administrative and judicial capacity). The State Aid Surveillance Commission should improve certain State aid legislation, which already existed prior to the State aid law, to make the law on Special Economic Zones fully compatible.

## **Conclusion**

Further efforts shall be required by Latvia to reach full alignment with the *acquis* in the areas of public procurement, intellectual property rights, company law, accounting and auditing. Now that the process of alignment is quite advanced, far greater attention needs to be paid to ensuring effective implementation and enforcement of legislation. While this is relevant for all aforementioned sectors, special reference should be made with regard to industrial and intellectual property rights.

On free movement of goods, Latvia has made considerable progress in bringing its legislation in line with the *acquis* and in strengthening its implementation structures. Progress needs to be sustained and additional efforts will be required to ensure a sufficient level of skilled personnel. The adoption of standards is progressing. Work on establishing a fully fledged market surveillance system is too early to assess. This needs to be closely monitored over the coming year.

In the area of free movement of capital, liberalisation of the remaining restrictions concerning inward investments as well as restrictions concerning the acquisition of land by foreigners needs to be pursued.

Alignment concerning the free movement of services has already progressed significantly but needs to be completed, particularly with regard to freedom of establishment of foreign branches of insurance companies in Latvia.

Further progress has been accomplished in the field of competition and state aids, and the responsible authorities have improved their functioning.

The short and medium-term priorities of the Accession Partnership in the field of competition and state aid have all to a large extent been met. The priorities relating to the Internal Market have only partially been met although steady progress has been made.

## **3.2 Innovation**

### *Information society*

Latvia continued to actively participate in the work of the joint High-Level Committee on Information Society. The Latvian National Programme for Informatics (Action Plan 1999-2005) has been developed and implementation has begun. With the aim of being able to offer computer classes and network links in all general and professional educational facilities by 2003, Latvia continued the informatisation of the educational system. Regional support centres were created, and teacher trainers have started training courses.

### *Education, training and youth*

Following the adoption of a new framework Law on Education in October 1998 (see chapter on political criteria), a strategic programme on the development of education was adopted ("Education 1998-2009").

Latvian legislation on education of children of migrant workers has been aligned with the *acquis*.

Since November 1998 Latvia is participating in the SOCRATES, LEONARDO DA VINCI and Youth for Europe programmes. The Agency for International Youth Programmes was established to act as a national coordination unit in April 1999.

In 1998-99, 339 students have benefited from Erasmus mobility grants to study in EU countries and 1023 young Latvians have taken part in the Youth for Europe programme. In 1998, 255 Latvians participated in exchanges within the framework of the Leonardo programme (vocational training).

### *Research and technological development*

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

The association of Latvia with the 5<sup>th</sup> Framework Programme (1999-2002) and with the Euratom Framework Programme has entered into force in August 1999. In order to prepare the successful association several structures have recently been established in Latvia, including a National Contact Point created in order to coordinate activities in all thematic and horizontal programmes. The real implementation capacity will be tested during the association with the 5<sup>th</sup> Framework Programme. Latvia has also decided to open its corresponding research activities to the enterprises, researchers and universities from the Member States.

### *Telecommunications*

Latvian legislation in the area of telecommunications is not yet in line with the *acquis*. Since the last Regular Report, no new legislation has been adopted.

According to a government policy plan as well as the commitments Latvia has made at the WTO, the monopoly period in the telecommunications sector will be brought back from 2013 to 2003. The current monopoly provider, Lattelekom, is 51% state owned and 49% foreign owned. A decision to privatise the remaining shares of Lattelekom was taken by the government in October 1998, and efforts continue to renegotiate the contract on which the monopoly is based.

As of now, the regulatory agency does not yet have the full powers required by the *acquis*. Some of the functions are currently being carried out by the Department of Communications in the Ministry of Transport and the Telecommunications Tariff Council

The Latvian fixed network operator is too dependent on revenues from international traffic, and better rebalancing of prices is needed. There are already substantially cheaper tariffs available to secure affordability for the 30% of all customers who are deemed deserving. Despite this and growing modernisation of the network, the number of fixed telephone lines (30 per 100 inhabitants) at the end of 1998 was no higher than two years before. Mobile telephones grew to 7 per 100. More work is necessary to bring the interconnection system into compliance with the *acquis* as soon as possible notwithstanding the maintenance of some exclusive rights until 2003.

Concerning standardisation, the Ministry of Transport's Communications Department became a member of ETSI in November 1998, and work on adopting standards is underway.

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

There is, as of yet, no independent postal regulatory body, and the functions are presently carried out by the Communications Department of the Ministry of Transport.

### *Audiovisual*

Significant progress has been made in Latvia since 1998, notably the adoption and entry into force (in November 1998) of amendments to the Law on Radio and Television. This law is not however fully in line with the Television Without Frontiers Directive. A number of provisions should be further modified, including, *inter alia*, definitions (incomplete definition of broadcasting and tele-shopping), jurisdiction criteria (possible problems with cable and satellite broadcasting), access to major events (disproportionate list and no reciprocity principle), promotion of European and independent works (definition of European works insufficient, no exclusion of news, games etc, independent producers not properly provided for), Advertising/Teleshopping rules (certain advertising rules not provided for and no provisions for teleshopping).

The existing administrative body, the National Radio and Television Council requires strengthening in terms of human and financial resources. Further progress needs to be made in the establishment and consolidation of an effective, independent monitoring and sanctioning system.

### **Conclusion**

Latvia has made further progress in the fields of information society, education, training and youth. Progress has been achieved in the field of research and technological development with the full association to the 5<sup>th</sup> Framework Programme. Substantial efforts are needed to align telecommunications legislation with the *acquis*. Audiovisual legislation also needs to be brought fully in line with the *acquis*.

## **3.3 Economic and fiscal affairs**

### *Economic and Monetary Union*

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

Latvia has made substantial progress in its preparation for participation in the EMU. In particular, for the *acquis* that has to be implemented before accession, the purchase by the central bank of government debt on primary markets is prohibited, there is no privileged access of the public authorities to financial institutions, and the basic provisions of the Law on the Bank of Latvia largely comply with the requirements of the Treaty.

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

## *Taxation*

Latvian legislation on taxation is broadly in line with the *acquis*. In 1998 Latvia completed the implementation of the basic principles of the *acquis* and has since continued its alignment process.

Amendments to the VAT law entered into force in May 1999. These provide for, *inter alia*, the introduction of special rules for the application of VAT on supplies of timber, the introduction of a refund scheme for foreign natural persons (as of beginning of 2000), and the abolition of VAT exemptions on supplies of mass media (as of 2002).

Amendments to the excise legislation on alcoholic beverages and tobacco products entered into force as of January 1999. This new legislation establishes the procedures for the application of excise duty on the two product categories including further alignment of the taxable scopes and the duty rate levels.

In the field of administrative cooperation, an agreement between all three Baltic States entered into force in June 1999 on cooperation in the organisation of simultaneous audits of direct taxes. This agreement envisages broader possibilities for cooperation between tax administrations with regard to effective control of taxpayers in the Baltic States.

The State Revenue Service (which houses both the tax and customs administrations) has embarked upon a wideranging modernisation programme, which entails, *inter alia* ongoing computerisation and the implementation of modern information and data management systems.

## **Conclusion**

Although the short-term priority of the 1998 Accession Partnership in this area has not yet been fully met, Latvia has continued to make progress in aligning its legislation. Further efforts will be required to bring it fully in line with the *acquis*, as regards excise duties on beer, tobacco and mineral oils. Restructuring and strengthening of the responsible administrative structures also needs to continue.

## *Statistics*

Progress towards adapting Latvian statistics to EU requirements has continued since the 1998 Regular Report. Legislation on state statistics was adopted in November 1998 which is partially in line with the *acquis*.

In macroeconomic statistics, a first set of input-output tables has been produced for 1996. Annual accounts are now compiled according to EU standards. Concerning business statistics, the PRODCOM classification (Eurostat classification of industrial production) was introduced as of January 1999. NACE has become compulsory for all administrations. As regards tourism, the first survey of domestic tourism has been

conducted. Regarding short term statistics, sampling has been brought in line with EU requirements.

The compilation of financial accounts was completed by the Central Statistical Bureau in close co-operation with the State Treasury and the Bank of Latvia. Preparations for the hand-over of Balance of Payments statistics from the Central Statistical Bureau to the Bank of Latvia have begun. Methodological work for the compilation of import price indices has been completed.

A pilot Agricultural Census took place in two regions. The Agricultural Census itself has been delayed until 2001. A test census in four rural municipalities took place in 1998. Structural statistics remain poor and the Farm Accountancy Data are not in line with EU requirements. Work on developing the farm register commenced in 1998. Compliance in production statistics is advancing well.

Regarding statistics on fisheries, data collection on landings commenced in 1999. Statistics on fisheries employment as well as a fishing vessel register need to be developed. Further progress is needed in the areas of: population and housing census, the farm register, business register, labour force, labour cost and earnings surveys, and improvement of the reliability of information on external trade

### **3.4 Sectoral policies**

#### *Industry*

Since the 1998 Regular Report, Latvia has made progress in implementing key structural reforms and setting up a favourable regulatory and policy framework for business development. A clearer distinction now exists between economic policy and industrial policy. Further attention is being paid to enhancing industrial competitiveness.

The Russian crisis revealed the difficulties many enterprises face in re-orienting their trade in order to compete on the global market. As a result of the crisis, Latvia has put more emphasis on analysis of industry, defining competitive advantages, identification of market failures and involvement of all key actors such as industrialists, universities and centres of excellence. The new approach acknowledges that there is a competitiveness gap between Latvia and EU Member States and recognises the need for government support for the industrial sector, while at the same time respecting the principles of the free market.

Upgrading professional skills and making the most of the country's R&D potential is another key issue. Despite some isolated initiatives aimed (for example, at improving vocational education in the forest-based and mechanical engineering industries), and preliminary steps to identify centres of excellence, progress remains limited in this area.

A large number of administrative barriers to investment in Latvia have been identified. These need to be addressed to ensure a more favourable environment for investment.

This issue is being discussed by the recently created sectoral expert councils which involve public authorities and industry representatives.

The existence of barriers to investment combined with the fact that the privatisation process is virtually complete in industry could explain why the amount of FDI in the manufacturing sector is not increasing more rapidly and is not sufficient to meet the important restructuring and modernisation needs. (see chapter on economic criteria)

An important dimension of the industrial policy is the control of state aids (see section on competition).

## *Agriculture*

### **Agricultural situation**

Agricultural output decreased by 4% in 1998 mostly due to strong declines in crop production, which was related to poor weather conditions. The downward trend in animal production again continued, especially as concerns pigs. The meat processing industry, however, increased its output (mainly preserved meat and sausages). In the dairy sector, the milk processing branch noted significant increases in milk powder and casein production. The overall share of agricultural production in GDP was 10.6%. Farm gate prices for all products declined in 1998 by 4% and input prices increased by 2% resulting in a decline in incomes for many producers, especially small-scale farmers. The proportion of household expenditure allocated to food remains high but decreased from 47% in 1997 to 44% in 1998.

The share of agro-food products in total exports was 15.9%, and 13% for imports. Total agro-food exports declined in relative and in absolute terms, being affected by the Russian crisis.

EU imports of agricultural products originating in Latvia increased in 1998 by 5% to €42.2 million and EU exports by 12% to €228 million. The increased imports were mainly registered in the sector of prepared fruit and vegetables. As regards EU exports to Latvia, most product groups have increased compared to 1997, in particular sugar, confectionary and tobacco. The trade balance in favour of the Community amounted to €186 million in 1998, compared to €165 million in 1997.

Since the previous report, Latvia has introduced temporary safeguards on import of pig meat (see section on relations between the European Union and Latvia)

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

### **Agricultural policy**

The privatisation of agricultural land has progressed further, and around 90% is in private hands. While registration in the State Land Cadastre is almost complete

(around 97% at the end of 1998 compared to 55% in the last Regular Report), registration in the Legal Register is progressing more slowly and stands at 45% (compared to 41% last year). Overall, the land market has developed less rapidly than anticipated and varies greatly between regions.

Credit and profitability problems induced several government initiatives, including the introduction of a credit guarantee fund, direct payments (agricultural subsidies are 3% of state budget), and input support. At the same time almost half of the agricultural budget was targeted at structural and rural development policies. Intervention in the cereal market has started in 1998 and is planned in the dairy and sugar sectors for the year 2000.

The agri-food industry, including transport systems, will need to be restructured and modernized in order to strengthen its competitiveness and to meet EU standards of hygiene and public health. A large number of enterprises have been taken over by producers' associations.

In the *veterinary* field, progress has been made in the implementation of an animal identification and registration system in accordance with EU requirements, more particularly in the field of animal infectious diseases. The existing institutions have been complemented by the creation of a Consultative Council for the State Veterinary Service. In addition, the number of veterinary inspectors has been increased, and training programmes were conducted. Laboratories are at present being reorganised and modernised. To date, fourteen veterinary laboratories have received accreditation from the National Accreditation System.

As regards *phytosanitary* legislation, a framework law on plant protection was adopted in December 1998 and entered into force in January 1999, thereby transposing a series of EC rules.

Further work will be required concerning laboratories, border inspection posts, veterinary and phyto informatics systems, animal welfare, rendering plants, equipment and facilities for the veterinary and phyto sector and continuing training of personnel.

In December 1998, concepts for sectoral development policies were adopted. A Rural Development Plan is at present under preparation. To prepare for participation in the EU pre-accession funds (SAPARD) as of next year, several preparatory measures were taken.

- In January 1999, regional and local authorities as well as non-governmental organisations were polled in order to define priorities.
- A first draft programme was prepared based on the polling results, which addresses the following elements: investments in agricultural enterprises, improvements in the processing and marketing of agricultural and fisheries products, the promotion of alternative types of employment, the improvement of the rural infrastructure and the promotion of environmentally friendly farming methods.
- An Agency of Rural Structural Programmes was established in December 1998.

Preparations to introduce market mechanisms in line with the *acquis* have not yet started in the area of *arable crops, fruits and vegetables, beef and milk*.

## **Conclusion**

Since the last Regular Report, the privatisation of agricultural land and registration in the State Land Cadastre have progressed further, while registration in the Legal Register has been much slower. The 1998 Accession Partnership drew attention to four areas where particular efforts were needed: legal approximation, implementation of veterinary and phytosanitary requirements, strengthening of administrative capacity and further restructuring of the agri-food sector. While some progress has been achieved, it is noted that significant further efforts will be necessary to align Latvia's legislation to the *acquis* and to put in place the necessary administrative structures to manage the Common Agricultural Policy.

### *Fisheries*

The share of fisheries in Latvia's GDP has decreased gradually and amounted to 0.2% in 1998. The share of fisheries products in total exports in 1998 was 3.1%.<sup>6</sup>

In the area of fisheries, Latvian legislation still needs to be aligned with the *acquis*. The inspection and control system will need significant further resources in order to comply with the standards of the *acquis*. Significant efforts will further be required to restructure the fishing fleet as well as fish processing enterprises in order to comply with EU requirements and to enhance competitiveness.

Latvia has signed bilateral fisheries agreements with Denmark and the Faroe Islands, Russia, Ukraine, the United States and Estonia and a memorandum of understanding on mutual fisheries relations with Canada. Negotiations are at present conducted with Lithuania and Poland. Latvia has also signed an agreement on technical cooperation in fisheries with Denmark.

Following the creation of a fishing vessel register in 1998, registration started in January 1999. It is estimated that, once fully operational, the register will contain around 400 vessels. In addition, around 100 smaller vessels exist. No legislation to align to the market intervention mechanisms of the Common Fisheries Policy has been introduced yet.

### *Energy*

#### **Energy policy**

In the field of energy, Latvian legislation has partially been aligned to the *acquis*. During the last year, Latvia continued to prepare its energy sector for EU

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<sup>6</sup> Latvian national statistics

requirements. The Law on the Energy Sector, which essentially covers the *acquis* concerning the internal market in energy, entered into force in October 1998.

In March 1999, regulations on the supply and use of electrical energy, gas and heat were amended. Latvia's legislation is not yet fully in compliance with the *acquis*.

Progress has been made on energy prices, especially electricity, but distortions in the sector still exist. Concerning oil exploration, legislative amendments were passed in October 1998, which is a step forward towards fulfilling the EU requirements concerning hydrocarbons licensing. The Law on Natural Deposits was amended in February 1999. Further legislative changes will be required to align to the EU reporting requirements concerning oil production and prices as well as the gas and electricity transit requirements. On oil stocks, regulations were adopted in March 1999 which adjust the legal base for state reserves and civil defense. Latvia estimates that today, 20 days of stocks are available, and it will be able to build up the required 90 days stocks by approximately 2010.

In the gas sector, further alignment with the *acquis* will be necessary concerning network access, tariffs, transparency and long-term contracts.

Up to the end of 1998, the Latvian Energy Regulation Council had issued 30 licences to electricity supply utilities, 73 to heat supply companies, 4 to natural gas companies and 7 to LPG supply companies.

Latvia signed the Kyoto Protocol in 1998 and ratified the Energy Charter Protocol on Energy Efficiency and related environmental aspects in October 1998. In March 1999, the Consumer Rights Protection law was passed, including provisions for labelling. Further legislative changes will be required to meet the *acquis* requirements regarding energy efficiency as well as attaining and maintaining standards of rational use.

The liberalisation of the sector has started, but there have not been significant developments since the last Regular Report.

In October 1998, Latvia concluded an agreement with Lithuania and Estonia, covering all aspects of the energy sector. In December 1998, Latvia was co-signatory of the communiqué on Baltic Sea Region Energy Cooperation.

### **Nuclear energy**

Latvia has no nuclear power plants. The Law on Radiation Safety and Nuclear Safety was amended. As concerns the decommissioning of the nuclear research reactor in Salaspils, which was closed down in June 1998, Latvia is looking to ways of managing spent fuel and waste. A decision was taken last year to create a new regulatory authority for nuclear safety by merging two existing institutions, but this has not yet been set up. Latvia has not yet signed the Joint Convention on the Safety of Spent Fuel Management.

### **Conclusion**

Further progress has been made since the last Regular Report. Greater attention needs to be paid to the preparation for the internal energy market (electricity and gas directives) including the adjustment of monopolies, access to networks, energy pricing and the further establishment of an appropriate and efficient mechanism for regulation, emergency preparedness including the building up of mandatory oil stocks, restructuring programmes and improvement of energy efficiency. Legislation put into place recently gives a solid basis from which to continue these efforts. No major difficulties are foreseen for compliance with Euratom provisions.

### *Transport*

Alignment with the *acquis* in the transport sector is at an advanced stage. Latvia made further progress in aligning with the *acquis* based on its National Programme for Transport Development 1995-2010.

As concerns *road transport*, in January 1999 a ministerial regulation on licensing of road haulage operators entered into force, bringing the rules and criteria on access to the profession in line with the *acquis*. Furthermore, the governmental regulations on the use of tachographs from December 1998 (for international transport) and the Road Traffic Rules from April 1999, implement significant parts of the technical, safety and social *acquis* in the transport sector.

A Law on *railways* came into force in November 1998 and several secondary legal acts have since been adopted, implementing most of the elements of the railway *acquis* and creating modern administrative structures. A railway administration, an independent railway technical inspectorate and a Railway Standardisation Technical Commission were set up in mid-1999.

To increase *maritime* safety, a modern vessels traffic system (VTS) was established in Riga port, which became operational in May 1999. The systems of the ports of Ventspils and Liepaja have also been upgraded, and others are underway. Alignment to the Port State Control system has progressed and is now closely in line with the *acquis*. In June 1999, regulations concerning a Ships Register and on reports about ships carrying dangerous goods were adopted in line with the *acquis*. From data collected on safety inspections in ports of members of the Paris Memorandum of Understanding, it has become apparent that the number of detained registered Latvian vessels has further increased. This trend is a matter of concern and needs to be addressed.

As concerns *air transport*, Latvia has concentrated on the conclusion of the Agreement on a European Common Aviation Area (ECAA) in the last year. Latvia is actively following the effective harmonisation of technical requirements and administrative procedures according to Joint Aviation Authorities (JAA) requirements, with the aim of being one of the first candidate countries to be accepted as a full member next year. In May 1999, the government adopted an Air Transport Policy to serve as a basis for finalising the alignment of legislation with the *acquis*. Latvia yet has to establish an independent investigation authority for civil aviation accidents in order to comply with the *acquis*.

Latvia continued to invest in its transport *infrastructure*. As developed under the Transport Infrastructure Needs Assessment (TINA) and in line with the National Programme for Transport Development, priorities include infrastructures in North-South (Via Baltica) and East-West direction.

## **Conclusion**

Latvia has continued its ambitious programme of transposing and implementing effectively the transport *acquis* in all areas and in particular in railways. The administration has been further reinforced with the establishment of new institutions necessary for the successful implementation of the *acquis*. Further attention needs to be paid to increasing the enforcement of maritime safety, where it appears from present figures that both the flag state administration and the port state control mechanisms need to be improved, and to establishing an independent investigation authority for civil aviation accidents.

### *Small and medium-sized enterprises*

SMEs represent 99% of all Latvian enterprises, employing a total of 60% of the active population. Small and medium-sized enterprises dominate in the major export industries, such as wood processing, foodstuffs and the textile industry.

A network of nine Business Advisory Service Centres and four Business Innovation Centres provide support to technology-oriented SMEs and promote the transfer of new technologies and the Latvian Guarantee Agency promotes investment financing for SMEs. Access of SMEs to credit and guaranties still remains limited.

Further efforts need to be taken in order to intensify the implementation of measures identified in Latvia's National Programmes for SME development and the priorities outlined in the medium-term Economic Strategy.

Latvia has applied for participation in the Third Multiannual Programme for SMEs. and has opted to participate in all programme strands open to candidate countries.

## **3.5 Economic and social cohesion**

### *Employment and social affairs*

Due to the general economic downturn as a result of the Russian crisis, the registered unemployment rate had risen to 10% by July 1999 (compared to 7% in August 1998; ILO figure: 13%). The situation varies substantially between regions and generations (26% unemployment of under 25-year-olds).

The government approved a conceptual approach on employment promotion in April 1999, which foresees the elaboration of a National Action Plan for Employment, the creation within the National Tirpartite Consultative Council of an Employment Council aimed at improving co-operation amongst institutions, employers, and trade

unions on employment issues, and the improvement of the financing mechanism for employment. Active labour market measures including professional training, retraining of the unemployed (15% of registered unemployed passed re-qualification courses, of which 38% found new employment), the creation of job clubs (number of successful participants increased by 70% compared to 1997) and social work in high unemployment regions (12,300 unemployed persons participated) were carried out. Programmes for special groups among the unemployed, including the disabled and long-term unemployed, have been developed.

In the field of *social dialogue*, the Parliament adopted a law on employers organisations in May 1999 (a law on employees organisations already existed), and the necessary legal framework is now in place. The statute of the Tripartite Co-operation Council came into force in January 1999. Collective agreements exist in the construction, forestry and telecoms sector. A bipartite convention exists in the construction sector. Autonomous bipartite dialogue needs to be strengthened significantly.

As concerns *equal treatment for women and men*, in December 1998, a unit responsible for gender *equality* issues was created in the Ministry of Welfare. However, no progress in the transposition and enforcement of EU provisions can be reported in this area.

As regards *health and safety at work*, in December 1998, a regulation concerning investigation and registration of accidents in the work place was adopted, and a law transposing EU provisions on safety signs entered into force in January 1999.

## **Conclusion**

Some progress has been made toward meeting EU requirements but further efforts will be required, for example in the area of health and safety at work, equal treatment and bipartite collective bargaining. All institutions require significant strengthening, as well as improved information and communication flows between them. Latvia's capacity to implement and enforce the social *acquis*, once adopted, continues to represent a serious cause for concern.

### *Regional policy and cohesion*

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

Following progress made up to 1998, little further progress has been made.

Latvia's regional average GDP per capita in the reference year 1996 was about 26% of the Community average with variations between 37% in Riga and 16% in Latgale region. It is still to be seen whether the whole territory of Latvia will be considered as one region (NUTS 2) in accordance with EU-methodology.

The Concept of Regional Development Policy provides the framework for the creation and implementation of regional policy in Latvia. However, Latvia needs to amend its present legislation. In particular, the law on assistance to regions has to be adjusted to take into account the implementation of structural funds on the whole territory of Latvia. It will also be necessary to amend the budget law to allow for co-financing including multi-annual commitments. Special attention should also be paid to administrative and budgetary procedures concerning payments, co-financing, partnership and evaluation.

Legislation on territorial reform was adopted in October 1998 to provide the basis for reform which should be completed by 2004. Until its completion and to address regional disparities within the country during the pre-accession period, Latvia is divided up in five planning regions. No regional statistical system has been put in place.

According to a government decision of March 1999, the Structural Funds Coordination Division, within the Foreign Assistance Programmes Coordination Directorate, has, at working level, the lead role in the preparation process for Latvia's implementation of EU structural funds support.

Latvia has only limited experience in appraisal and evaluation procedures.

## **Conclusion**

Very little progress has been made in the area of regional policy. In particular medium- and long term considerations have not yet been taken into account and need to be addressed as a matter of priority. Administrative structures especially at regional and local level for managing cohesion instruments and future structural funds need to be established and responsibilities should be clarified. The 1998 Accession Partnership priority in this area has not yet been met.

## **3.6 Quality of life and environment**

### *Environment*

In the area of environment, alignment to the *acquis* has progressed satisfactorily and Latvia has made further progress in transposing and implementing legislation.

Latvia has addressed the issue of the *integration of environment into other sectors* in its National Environmental Policy Plan, and specific steps in this regard are found in the national Environmental Action Programme. Latvia is also party to the Agenda 21 for the Baltic Sea, an action programme that emphasises the environmental dimension of sustainable development and its bearing on economic and social aspects.

Good progress has been made in transposing *horizontal legislation*. A new law on environmental impact assessment has been adopted in 1998, along with a regulation on EIA procedures. A new body, the Environmental Impact Assessment Bureau, has been established. Limited further amendments are still necessary to fully transpose the

environmental impact assessment directive and the staff of the new Bureau will have to be trained. Concerning Access to Environmental Information, the general law on access to information, which was adopted last year, covers some aspects, but further transposition will be necessary. Latvia signed the Aarhus Convention in 1998.

Latvia signed the Kyoto Protocol in 1998 and adopted a climate mitigation policy plan. Further efforts will be necessary concerning the calculation and monitoring of the new gases.

Approximation is progressing in the area of *water quality*. The Latvian legislation concerning bathing water is now in line with the *acquis*, and the adoption of regulations concerning drinking water equally represents substantial progress. During the last year, wastewater treatment plants were completed in five cities. However, major gaps remain in this area, and transposition should be accelerated. The administrative structure needs to be restructured and strengthened.

Regarding *waste management*, a new law and two regulations on municipal waste were adopted, bringing Latvian legislation in line with most of the provisions of the framework directive. Latvia is currently implementing its national programme for waste management and building a network of disposal sites including preparations for the construction of an incineration facility for hazardous waste. The strengthening of administrative structures together with the establishment of new institutions is a major task in this sector. The implementation of the landfill provisions and the establishment of the necessary collection systems for different waste streams equally represents a great challenge.

Concerning *industrial pollution control and risk management*, Latvia has continued to align to the *acquis*, including on major industrial accidents. The provisions on large combustion plants have been introduced for new installations.

In the field of *air quality*, Latvia is quite advanced. Its legislation is fully in line with the *acquis* as concerns the air framework directive and the directive on ozone depleting substances and volatile organic compounds from fuel storages for new installations. Two regulations on fuel quality standards have been adopted.

Concerning *chemicals*, a basic law came into force in January 1999, which provides the framework for the development of the legal framework for chemicals control. Latvia has acceded to the London and Copenhagen Protocol of the Vienna Convention on ozone depleting substances. Latvian legislation concerning packaging and labelling of dangerous substances is partly in line with the *acquis*. Further efforts will be needed to enable Latvia to apply legislation on import and export of certain dangerous chemicals and provisions concerning genetically modified organisms, particularly in establishing the necessary administrative structures.

In the field of radiation protection and nuclear safety, the government has adopted a programme on the decommissioning of the nuclear research reactor in Salaspils. Some of the requirements on safe transportation of radioactive substances have already been transposed. Compliance with legislation on medical exposures and protection of outside workers represents a challenge. There is a general need to upgrade the administrative structure in this sector. As concerns the decommissioning of the

nuclear research reactor in Salaspils, which was closed down in June 1998, Latvia is looking to ways of managing spent fuel and waste. Latvia has not yet signed the Joint Convention on the Safety of the Spent Fuel Management and on the Safety of Radioactive Waste Management.

In *nature protection* there are still significant gaps compared to the EU legislation concerning Habitats and wild birds, and Latvia needs to speed up its efforts in this area. Regulations on international trade in endangered species were adopted in April 1999, which enables Latvia to partly apply the EU legislation. The authorities need to be strengthened to fully implement and enforce those requirements.

One of the vital issues when implementing the environmental *acquis* is to have a good estimation of the related costs. Latvia has established clear costings for state investments as well as for the private costs, also taking into account possible future financing from the the International Financial Institutions. The public investment cost are assessed to be €1.2 billion and the private cost are estimated at €305-742 million to reach full compliance by 2015.

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

## **Conclusion**

While the approximation of legislation to Community standards is progressing satisfactorily, there continue to be large discrepancies in the level of compliance with the *acquis* between different sectors. Sector approximation strategies have been completed this year. While significant progress has been made in the air sector, further attention is needed in the sectors of water, nature protection and industrial pollution. Increased emphasis will now have to be laid on implementing and enforcing the new legislation.

The reform of the administrative structures needs to be accelerated, including the enhancement of laboratory capacity. There still remains significant work to establish a structure that can fully apply and enforce the *acquis*.

Having established clear cost assessments of the necessary investments in order to meet EU standards, Latvia needs to continue to invest in the environment sector. The short-term priorities of the 1998 Accession Partnership have largely been met.

## *Consumer protection*

Steady progress on legislative alignment has been made since the last Regular Report. Latvia adopted framework legislation on consumer rights protection in March 1999 which entered into force in April 1999. This legislation partially implements the Directive on Unfair Contract Terms and provides a legal basis for the implementation of Directives on Doorstep Selling, Distance Selling, Consumer Credit and Timeshare. This general framework needs however to be complemented by second-level legislation to ensure full alignment with the *acquis*. A regulation on the indication of prices for products and services was adopted in May 1999, to take effect from January 2000 and a regulation on consumer credit was adopted in July 1999.

The new consumer rights protection legislation accords the Consumer Rights Protection Centre more comprehensive enforcement powers. A Consumer Interests Protection Association has been established, unifying regional non-governmental organisations. Market surveillance authorities need to be reinforced.

### **3.7 Justice and home affairs**

The 1998 Regular report noted that progress had been made particularly on the legal side, but that it remained to be seen how this would be translated into operational terms. A strengthening of police capabilities was seen as essential in order to combat corruption and organised crime. The need for back up on the operational side was also relevant to border control and efforts to control drug trafficking.

#### *Immigration/border control*

In the field of *immigration*, the new visa legislation adopted in April 1999 represents a significant step forward. Since September 1998, bilateral visa-free regimes have entered into force between Latvia and Austria, France, Greece, Croatia, Italy, Slovenia, Spain, Germany and Portugal and have been signed with Belgium, the Netherlands and Luxembourg. Visas, basically in accordance with EU standards, are already being delivered and by the end of 1999 are expected to be machine-readable. In 1998, 8360 persons were detained for lack of valid documents, lack of visa or forged documents, as opposed to 5442 in 1997. The main increase concerns people without valid documents, whereas figures for lack of visa or forged documents remained stable. Since September 1998, Latvia has concluded readmission agreements with Greece, Croatia, Slovenia, Spain and Germany. Latvia has been in close contact with Russia on a readmission agreement and a draft text has been presented, but not finalised. The same is the case with Belarus. The arrangement on readmission of persons entering illegally from Russia is basically the same as in Finland. Latvia is not a special target country. In 1998, 380 people crossing the border illegally were sent back from Latvia to neighbouring countries as compared to 135 in 1997 and 332 were readmitted in Latvia in 1998 as opposed to 623 in 1997.

Latvia has no transit visa agreements nor a system for Airport Transit Visas. The simplified local border crossing procedures with Russia and Belarus need to be brought into line with EU visa requirements.

The provisions on immigration need to be aligned the EU *acquis*: it is possible to enter Latvia on a tourist visa and to get a work permit without leaving the country. The work contracts needed for visa purposes may be signed for an unlimited period of time. Students have no right to work for limited periods and are not required to prove their social insurance cover when they arrive. Latvia should continue progressive alignment of visa legislation and practice with that of the EU.

Latvia is gradually improving *border control* thanks to the adoption of a detailed plan and increased budgetary support for equipment and infrastructure. In 1999, Latvia has continued to implement its three border guard investment programmes (1997-2002) by allocating €5,4 million. An on-line border data system is being expanded. By July

1999, computerized border control was performed at 34 border control points (using 65 computers).

Progress is needed on border controls, a uniform information system involving Sea Rescue and the Navy and the definition of the status of the Navy Coast Guard.

### *Asylum*

Latvia has made substantial progress on asylum regulations. The new Statute on Refugees is closely in line with the *acquis* and entered into force in March 1999. Even if the present law refers to the Geneva Convention, the Appeal Council grants refugee status on humanitarian grounds by, inter alia, applying the European Convention on Human Rights.

However, the *acquis* concerning unaccompanied minors has not yet been transposed. The adoption of formal regulations concerning temporary protection would consolidate the existing practices. The Appeal Council makes independent decisions, but Latvia needs to reconsider its legal structure and the formalities regarding appointments, in order to ensure the structural independence of this body and the time taken to deal with appeals. Steps to prepare for accession to the Dublin Convention should be undertaken.

### *Police*

The Criminal Law and Latvian Criminal Code of Practice, which came into effect in April 1999, incorporates much of the *acquis* and includes terrorism. Latvia ratified the European Convention on the suppression of terrorism in March 1999. With regard to the fight against money laundering, assets can be frozen rapidly on the basis of a member state request. The Interpol Office continues to function satisfactorily and the introduction of a system of liaison officers is being prepared by participation in training courses organised by Member States.

Since little was done in institutional preparation prior to the entry into force of the Criminal Law and the Latvian Criminal Code of Practice, it can be expected that the administrative capacity and the availability of budgetary resources will have to be addressed. The turnover in police staff, even if decreasing, needs to be monitored. Some important aspects of the *acquis* still remain to be covered such as that concerned with the trafficking in human beings. Regarding organised crime, the Criminal Code does not criminalise membership of an organised crime group in the same way as it is defined in the *acquis*. Furthermore, it will be necessary to make amendments to include the criminalisation of legal persons. The precise definition of the respective roles/remit of the agencies fighting organised crime needs to be clarified, as well as their co-ordination and the oversight of the Ministry of the Interior. Significant institutional strengthening and increased integrity of the law enforcement agencies will be necessary.

### *Drugs*

Latvian drug regulations comply with the EU *acquis* and the master plan to fight drugs was adopted in December 1998. International cooperation has strengthened the

efficiency of the law enforcement of drugs. Drug prevention needs to be improved. It appears that drug use and drug mortality increasingly affect younger generations. There are also indications of an increased use of hard drugs.

#### *Judicial co-operation*

In civil matters, new rules on international jurisdiction are in force since March 1999. The Criminal Law and the Latvian Criminal Code of Procedure which came into effect in April 1999 provide a basis for the efforts still needed to complete the alignment with the *acquis*.

#### **Conclusion**

Since the 1998 Regular Report, Latvia has made rapid progress in aligning to the JHA-*acquis* in all areas and especially in border controls, migration and asylum. Progress was not as significant on police, the fight against organised crime, and drugs, and Latvia should address the high turnover through an improvement of the status, salaries, working conditions and training of the police force, define more precisely the respective roles and strengthen co-ordination of the agencies fighting organised crime. In the field of drugs the budgetary resources and training in prevention and combatting illegal trafficking should be increased.

Latvia should maintain its efforts on border control, especially through the supply of equipment and the improvement of training and border patrols.

### **3.8 External policies**

#### *Trade and international economic relations*

The simple average tariff on non-agricultural goods is 3.71% (compared to 3.5% last year). For agricultural goods the rate is 14.1%.<sup>7</sup>

Latvia became a full-fledged member of the WTO in February 1999. Latvia has aligned itself very closely to EC Common Commercial Policy (CCP), including the EC's GATS commitments and applies MFN rates to WTO members and other states. Latvia has expressed its willingness to work closely with the EC in the forthcoming WTO Round, with a view to aligning positions and policies as closely as possible. It is prepared to also coordinate with the EU its actions concerning the WTO Agreement for Textiles and Clothing (ATC), with a view to achieving consistency of commitments upon accession. Latvia continues to align its commercial defence instruments with international standards. A law on safeguards was adopted in February 1999.

Latvia continues to align itself with EC trade rules by becoming a party to various preferential trade agreements. Latvia has already concluded Free Trade Agreements with the Czech Republic, the Slovak Republic, Slovenia and Poland. An agreement

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<sup>7</sup> Latvian national statistics

with Turkey has been reached but is not yet in force. A Free Trade Agreement with Hungary was signed in June 1999. With Poland, the Free Trade Agreement has been applied provisionally since April 1998. Latvia is currently negotiating Free Trade Agreements with Bulgaria, Romania and the Faroe Islands.

Co-operation among the Baltic States in implementing gradual liberalisation and regional integration policies is developing and a Baltic Common Economic Area is being introduced. An agreement on the abolition of non-tariff barriers to trade has been concluded in 1997 and negotiations are proceeding on liberalisation of the services market.

### *Development*

Latvia has no specific budget allocation for development aid, but has granted development aid on a case-by-case basis. No GSP schemes are being applied by Latvia.

In order to be able to participate in EC Development policy upon accession, Latvia will have to upgrade its institutional structures.

### *Customs*

Latvian legislation in the area of customs is broadly in line with the *acquis*. The 1997 Customs Law was last amended in October 1998 with regard to duty relief and temporary imports. Several government regulations were adopted in the course of 1998 and 1999. In July 1999 regulations on customs control measures for the protection of intellectual property rights entered into force.

Latvia employs the EU's combined nomenclature for 1999. A unit to deal with Binding Tariff Information is being set up and the Integrated Tariff is being gradually implemented. In the field of Origin, Latvia now participates in the pan-European system of cumulation, which has been applied since 1 January 1999. The Baltic Transit Convention between Estonia, Latvia and Lithuania came into force in June 1999 (implementation planned for early 2000). The Baltic system is based on the EU/EFTA Common Transit Agreement.

The State Revenue Service, of which the customs administration is a part, is undergoing a wideranging modernisation programme. As of June 1999 regional customs offices are directly accountable to the National Customs Board. At this early stage it is difficult to judge the actual progress made. In July 1998 various new units were created within each regional Anti-Smuggling Division.

Latvia now has four free zones, one having been created in the past year. The customs legislation is only partially compatible with the Community *Acquis*. A computerised customs information and control system (ASYCUDA - which will be common to all three Baltic States) was tested in one pilot site. The system should be rapidly extended to cover the whole of the country. A new computerised system for risk analysis was installed in 8 customs check-points.

## Conclusion

In the past year, Latvia has made progress in adopting secondary legislation. Greater attention needs to be paid to ensuring effective implementation and enforcement of legislation and organisational and operational capacity needs to be strengthened. Further efforts are also needed in the fight against fraud and corruption.

### *Common foreign and security policy*

Latvia continues to orient its foreign and security policy towards EU and NATO. It participates actively in the multilateral political dialogue within the framework of the Common Foreign and Security policy (CFSP), including the regular meetings at political directors', European correspondents' and Working Group level. It has regularly aligned its positions with those of the EU and, whenever invited, adhered to the Union's statements, declarations and démarches, including in the context of the UN and the OSCE. Thus it joined the Common Position on Kosovo, the ban on Yugoslav flights and the oil embargo on Yugoslavia.

During the Kosovo crisis, the Latvian government expressed its support for NATO operations against the FRY, sent a team of military medics to Albania and provided humanitarian assistance to refugees. Latvian forces also participate in the Kosovo peacekeeping mission as well as in SFOR and in the WEU-led MAPE mission in Albania.

Latvia strives to contribute to regional stability through a policy of good-neighbourly relations and regional co-operation, i.a. as an active member of the Council of Baltic Sea States (CBSS). Land border agreements have been concluded with Estonia, Lithuania and Belarus. A long-outstanding sea border agreement with Lithuania was signed in July 1999. The demarcation of the Latvian - Belarussian border has begun, and been completed on the Latvian side in September 1999. The draft border agreement with Russia was finalised and approved by the Latvian government in December 1997 and awaits final approval by Russia.

## 3.9 Financial questions

### *Financial control*

Latvian legislation on financial control is not yet in line with the *acquis*.

The *external* financial control (State Audit Office) partially meets the requirements of EU guidelines for adequate audit of public funds and expenditure. Priority should be given to up-dating the audit legislation. The financing arrangements of the State Audit Office should be reviewed. The Office should also implement internationally recognised auditing standards and expand its scope of audit to include attestation and performance audits.

In February 1999, a Cabinet decision was adopted, according to which the Ministry of Finance is now responsible for promoting change and developing financial control and internal audit methodologies. At the same time, the Cabinet designated the Ministry of Finance as the co-ordinator for the implementation of an *internal* audit system in Latvia.

It will be important to foster awareness and increase expertise within the responsible administrative bodies as concerns the need for financial control and audit structures and in particular also EU requirements. The institutional framework for co-ordination of preventive actions, or follow up and reporting on irregularities needs to be developed further. There are currently no coherent general or specific provisions for prevention or recovery covering the major expenditure flows including EU funds.

### **Conclusion**

Though some progress has been made in 1999, internal financial control is not yet in line with good practices in EU Member States, in particular in view of regulations for managing EU funds and resources. A coherent legal framework, including regulating the responsibilities for central co-ordination and quality assurance of internal audit and financial control, is a matter of priority. The coordinating role of the Ministry of Finance needs to be enhanced.

### **3.10 General Evaluation**

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

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

Latvia has continued to address the Accession Partnership short-term priorities in a satisfactory manner demonstrating good progress in aligning its legislation to the acquis and in setting up the structures required to implement it in most areas. However, the delays in implementing general public administration reform have weakened its capacity in this respect. The implementation and enforcement capacity

priority should be addressed in a more systematic manner, with an emphasis on telecommunications, agriculture, customs and tax administration, maritime safety and financial control.

#### 4. Administrative capacity to apply the *acquis*

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

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

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

In the 1998 Regular Report, the Commission concluded that :

“Latvia has made a number of important steps in strengthening its public administration, recognising the importance of setting up and developing enforcement capacity in areas such as standards and certification, state aids and banking supervision. However, further efforts are needed to clarify responsibilities in environment and regional development. Administrative capacity needs to be strengthened in agriculture, intellectual and industrial property, customs and tax administration, justice and home affairs. The capacity of the judiciary to apply the *acquis* should be strengthened by enhancing the status of the profession, through training and ensuring that vacancies are filled promptly.”

## 4.1 Administrative structures

The Bureau for Public Administration Reform (BPAR), established in 1997, (12 persons) is responsible for designing strategies for public administration reform, supervising the functioning of the institutions of public administration and the implementation of government policy in the civil service and screening draft regulations and draft laws to ensure that proposals for changes to public functions, structures of public administration institutions, institutional status, and the status of civil servants or government employees are in line with the overall concept of public administration reform.

The Civil Service Administration (CSA), (25 persons) is responsible for creating databases of civil servants, providing civil servants information on available positions, tracking career histories of civil servants and coordinating state institutions activities in civil service issues. It also serves as a 2<sup>nd</sup> instance of appeal in cases of breach of Civil Service law. The Civil Service Administration is currently in the process of developing a unified data base on state institutions, creating civil service ranks based on job responsibilities, training personnel managers to apply civil service ranks, participating in the Interministerial Working Group developing the wage reform, introducing career management and career development practices.

The Latvian School for Public Administration (16 persons), founded in December 1993, develops state civil service training programmes, manages and coordinates the training process for state civil servants in training institutions and centres and organizes public seminars, and lectures. It has cooperated with 24 training centres, 14 in the capital city Riga and the rest in the regional centres.

The European Integration Council (EIC) is a high level political institution established by the Government for political administration of the European integration process. The Council is composed of seven ministers representing the seven ministries most involved in the integration process.

The Council of Senior Officials (CSO) is responsible for the horizontal co-ordination of the integration process. It is composed of the senior officials responsible for the European integration in all the ministries, and of the representatives of the State Bank, the Public Administration Reform Bureau, and the State Chancellery. The director of the European Integration Bureau heads the Council of Senior Officials. It has formed more than 30 inter-ministerial working groups, which cover the *acquis*, as well as issues of the second and the third pillars.

The European Integration Bureau (EIB) (30 persons) is the central administrative institution for the co-ordination of the internal integration process of the state. It functions as a secretariat for the Council of Senior Officials and the European Integration Council. The Bureau is responsible for the harmonisation of national legislation, supervision of implementation of the national integration programme, preparation of conclusions about conformity with EU laws, and co-ordination of the work on information to the public.

The Ministry of Foreign Affairs is the central institution for the administration and organisation of the external integration process. The ministry supervises and administrates the external integration process of Latvia.

The Negotiation Task Force, which was established in 1998 by the Ministry of Foreign Affairs, (11 persons) ensures preparation of Latvia's accession negotiations, and preparation of a draft accession negotiation mandate.

The main objectives of public administration reform in Latvia are set out in the medium term strategy (Strategy 2000) which was adopted by the Cabinet of Ministers in March 1998. Subsequent Government Declarations of November 1998 and July 1999 broadly contain the same objectives as those of the medium term strategy, albeit with an extended timeframe for adoption of reform. Priority actions include internal audit, territorial reform, budget reform, increased transparency, pay reform, preparation of a new civil service law, and restructuring of the public administration system. As yet very few concrete measures have been taken to implement the aforementioned priority actions.

A cabinet regulation on the examination procedure for civil service candidates was adopted allowing for the qualification exams to commence in May 1999. Following the Civil Service Law of 1994, civil servants have remained as 'candidates' subject to special state exams being held. There have been several delays in the start-up of such exams. As of end of June 1999, 84 out of approximately 7536 candidates have passed the examination to become civil servants.

Of other progress made since the 1998 Regular Report, the following should be highlighted:

- A law on access to information has been adopted with the aim of opening access of information on the public service to the public.
- In December 1998 procedures for the publication annual reports were adopted.
- Amendments were made to the internal regulations of the Latvian parliament requiring all draft legislation that is submitted to the parliament to be accompanied by annotation. The annotation should include information on the law's impact on economic development, state budget and an assessment of its compatibility with EC law.
- The post of Special Tasks Minister has been created with responsibility for Public Administration and Local Government Reform.

Overall, the pace of public administration reform in Latvia has slowed considerably over the last few years. Many of the priority actions, outlined in the 1995 Concept, the Strategy of March 1998 and the Government Declaration of November 1998, have not yet been completed. It is particularly regrettable that a new civil law service law has not yet been adopted and that the vast majority of civil servants still have the status of candidates. The use of management contracts has increased considerably within (in the form of an extra payment on top of a basic salary) and outside the civil service. In addition, several institutions and individuals have decided to effectively withdraw from the civil service, raising questions of control, supervision and transparency. The

pay remuneration arrangements are fragmented and there has been a proliferation of semi-autonomous agencies.

The present state of the civil service and delays in public administration reform have weakened policy coordination and impact evaluation and risk to undermine the ability of the Latvian administration and subordinated bodies to implement and enforce the *acquis* with efficiency and effectiveness. Impact assessment and consultation with groups outside the government also need to be strengthened in order to ensure better implementation of legislation.

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

**The uniform application of EC law :** The court system in Latvia consists of three levels, namely the District Courts (34) as courts of first instance for civil, criminal and administrative cases, the Regional Courts (5) as appeal courts for civil, criminal and administrative cases and serious criminal cases which fall under their exclusive competence, the Supreme Court and the Constitutional Court.

The Department of Courts has 17 staff members and is divided into 2 divisions, one dealing with the judicial work (12 persons), the other mainly handling statistical work (2 persons). The Department deals solely with the administrative side of court cases. It considers complaints about delays, verifies the functioning of court registers, ensures judicial training and recruits candidate judges via the Qualification Board (it also has the power to dismiss a judge). Since January 1999, 3 cases against judges have been brought before the Disciplinary Board.

The Department of Court Bailiffs is supervised by the Ministry of Justice. It has 7 staff members (5 experts and 2 financial and accounting specialists). The Department is responsible for the training of court bailiffs, bailiffs can consult it on legal problems, and it considers complaints from individuals. A high number of complaints are lodged every month (20 to 30, a third of which go to court) which has put a strain on the department.

The Judicial Training Centre was founded in 1995 as a non-governmental, non-profit Organisation. It has 6 permanent staff members. The Centre is financed by private foundations/associations and (recently) the Ministry of Justice. The Judicial Training Centre is the sole institution responsible for the education of judges throughout Latvia. Attending courses at the Centre is optional for Judges. However passing training courses at the Centre is normally one of the requirements for promotion to a higher degree of qualification (thus entitled to a higher salary). The Centre trains about 360 judges per year at its facilities in Riga. They receive two one-week courses, during which their judicial knowledge is refreshed. Frequently, prosecutors also attend the courses. Judges who have previously received training at the Centre usually conduct the courses.

*The level of knowledge of the *acquis* among judges is low although further efforts to train judges have taken place. More attention needs to be paid to training of judges in specific sectors of EC law. Since July 1998, 17 of the vacant judges posts have been*

*filled. As of July 1999, 26 out of a total 363 judges posts remain vacant. At the beginning of 1999 the total number of unsolved court cases (civil and criminal) amounted to 33651, as compared to 32,981 at the beginning of 1998 and 30,263 at the beginning of 1997. By mid-1999, the number of unsolved civil court cases (first instance and appeal combined) had decreased to 26,232 (27,945 at the beginning of 1999), and the number of unsolved criminal court cases (first instance and appeal combined) had increased to 5,837 (from 5,706 at the beginning of 1999).*

*With regard to bailiffs, further training and improved qualifications are required. Progress has however been made in the field of exchange of data and coordination with relevant government bodies. Shortcomings concerning the quality of legal publications have been identified. Court decisions are in general not published, apart from those of the Supreme Court. These are published by the Centre and judges receive them free. Law texts are published in book form, but without interpretation or annotation.*

**Single market:** The State and Municipal Procurement Monitoring Department (6 persons) within the Ministry of Finance is responsible for drafting *procurement* legislation, providing procurement advice, training and capacity building and monitoring procurement operations and handling international issues such as membership of the General Procurement Agreement of the World Trade Organisation. The Department is financed through the budget of the Ministry of Finance, and in accordance with current legislation, the system is decentralised to the municipalities. The total value of procurement transaction in 1998 exceeded € 512 million and involved over 870,000 contracts (both at central and local government level), of which 1.2 % were concluded with suppliers of foreign origin.

The Complaints Commission on Procurement (of which the State and Municipal Procurement Monitoring Department acts as a secretariat) is responsible for administrative review. Its authority is very limited given that it has no judicial power. It cannot suspend procedures, but may only give an opinion, request corrections and report cases to the State Audit Office. A very small number of complaints were received in 1998 (12) and so far in 1999 (2).

*The State and Municipal Procurement Department, given its wide scope of activities and responsibilities and the volume of transactions, needs to be strengthened in terms of resources and skilled personnel. A fully operational surveillance structure and dispute procedure still needs to be developed. Attempts are being made to inform the private sector about the rules and procedures governing procurement, however little interest has been shown, with the exception of larger companies (especially in the high-technology sector). In the public sector, a lack of training is hindering the tendering process, especially at the municipal level where staff has limited experience.*

The Ministry of Culture is responsible for issues relating to copyright and neighbouring rights and for the supervision of Collecting Societies.

A new Copyright and Neighbouring Rights Department, which foresees a staff of 3 (although only one person is currently in place), has been established within the

Ministry. It is responsible for policy making, drafting of legislation and resolutions, coordination with NGOs and other national and international institutions

*Latvia should further strengthen its administrative capacity in implementing and enforcing copyright legislation. Improvements to the judicial system are required. The courts system should be adapted and further training should be provided for the judges and prosecutors. Prosecution delays are still too long.*

Outside the government, a number of non-governmental organisations are active, such as the Latvian Copyright Agency, the Latvian Music Producers' Association and the Computer Programmes Copyright Agency.

The Latvian Patent Office (32 persons) is an independent body under the supervision of the Ministry of Justice. The Office grants approximately 400 patents per year for inventions, 100 patents for designs and about 2500 trademarks. The procedure for granting patents can take up to 2 and a half years and for trademark registration from 6-12 months. Almost all patent applications have been granted patents, with only about 2-3% of trademark applications refused. The Patent Office's only source of income is the patent fees received. The Latvian Patent Office is not yet a member of the European Patent Organization but an agreement has been signed stipulating that patents granted by members of the European Patent Organization could be extended to cover Latvia.

*The annual number of patent applications has significantly decreased due mainly to a reluctance to pay to be protected only in the Latvian market. An efficient system of appeal is in place. An appeal can be filed with the Board of Appeal or directly taken to court where judges have been trained in this field.*

The Register of Enterprises (90 persons) was founded in 1991 and has a central office in Riga and 8 regional branches. The register is a state institution under the supervision of the Ministry of Justice. On average 23,000 registration applications are lodged with the Register every year and 9000 new enterprises registered.

*Companies at present can be classified/registered under any one of 17 categories which as a consequence renders the gathering of information difficult. All information on enterprises can be found at the Register (including part of their accounts, except for the smallest entrepreneurs), it is computerised and accessible through the internet.*

The Division of Coordination and Analysis of Accounting Methods (5 persons) in the Ministry of Finance is responsible for improving the *accounting and auditing* legislation in Latvia to ensure compatibility with EC legislation and international accounting standards.

The Latvian Association of Certified Auditors is a self-regulated body consisting of approximately 120 members. Its Board consists of 9 members and a Chairman. There are 6 committees on Register, Methodology, Education, *Certification*, Examination and Ethics and there is an Audit Commission. The support staff consists of 3 employees. Currently no internal quality control visits are carried out, but cases of professional misconduct are reviewed by the Board. The Latvian Association of Certified Auditors is responsible for the self-regulation of the auditing profession in

Latvia, including the approval of technical standards, and the examination and certification of candidates. In 1998, 3 certificates were issued and exams were taken by 182 candidates. Latvian Certified Auditors carry out audits of statutory annual financial statements and provide advise on tax and accounting matters.

*The further adoption of standards in accounting and auditing is needed but has been, until now, hindered by a lack of resources and trained personnel.*

A public supervisory body responsible for monitoring and correct application of data protection provisions has yet to be established as the relevant legislation has not been adopted.

The independent standards institute, Latvian Standard Ltd. (15 persons) has been reorganised, thereby reinforcing its independence. Latvian Standard is an affiliate member of CEN (European Committee for Standardisation) since 1995 as well as associated to ISO. The Latvian Electro-technical Commission has applied for full CENELEC membership in 1999. In addition the necessary technical committees and branch standards bodies have been established in order to allow and assure the participation of all interested parties in the process, in particular economic operators. The Latvian Standardisation Council oversees the whole process. To date, approximately 350 standards have been adopted. Standards are developed in Technical Committees that are mainly composed of representatives of national industries. The technical committees elaborate precise plans for the development and adoption of standards. The company is financed through the state budget (80 %) and through the sale of its services (20 %).

*Latvian Standard Ltd. has been strengthened over the past year and functions well with a small but qualified staff. Given the increased workload (a large number of standards still need to be adopted), human resources may need to reinforced. Greater attention will also need to be paid to informing the private sector at large of the role of standards, which until recently have mainly been perceived simply as a necessary instrument to facilitate exports.*

The *accreditation* body LATAK, Latvian National Bureau of Accreditation, was established in 1994 and has been recognised as a full member of the European Accreditation Association since January 1999. The Bureau, which falls under the supervision of the Ministry of Economy, is responsible for granting, maintaining, extending, suspending or withdrawing accreditation. The procedure for accreditation takes no longer than 12 months. In accordance with European EN 45 000 series standards, LATAK has accredited 84 testing laboratories in different areas, 1 personnel certification body, 3 product certification institutions, 3 calibration laboratories, 5 inspections and 1 quality systems certification body. The Office is financed through the state budget and has 9 employees. However, besides these 9 employees, 50 experts are employed to make assessments of laboratories and are financed through fees.

*While accreditations from other member countries are systematically recognised in Latvia, bodies accredited in Latvia do not receive this recognition abroad. Only 2 of the accredited institutions have a double accreditation (one with Ukraine, the other with Germany).*

The Latvian *Metrology* Centre, a public non-profit limited liability company under the authority of the Ministry of Economy, is responsible for elaborating and also implementing legislation in this area. It furthermore represents Latvia internationally. Its Section of Mass Measurement has been granted accreditation. Latvia has furthermore the intention to notify one body for the field of non-automatic weighing instruments.

The Latvian Metrology Centre employs 140 people and has regional offices in 3 cities. The Centre, until now, has been financed entirely by industry. Its main source of income has been from entrepreneurs through activities such as verification of counters.

*Calibration of reference materials is identified as a key issue as it requires significant investment for upgrading. Investigations are currently underway to identify the needs, but once again the scope for updating the measurement standards will largely depend upon adequate financing.*

The State Metrology Inspectorate is a state institution under the supervision of the Ministry of Economy. It has a small staff of only 6 persons. Market surveillance is carried out by the State Metrology Inspection. Approximately 2000 on site controls are made a year and fines by the State Metrology Inspectorate where required.

The Executive Board of the Bank of Latvia is entitled to set restrictions on the activities of commercial *banks*, to suspend operations and to revoke licenses. In 1998, 98 on-site inspections took place and 4 bank licences have been revoked.

The Office for Prevention of Laundering of Proceeds derived from Criminal Activity (13 persons) was established in 1998 (following the adoption of legislation on prevention of laundering) and is financed from the state budget. The Office is responsible firstly for: receiving, collecting, and analysing reports by credit and financial institutions and other information in order to determine the existence of money laundering and secondly for furnishing the courts or any other bodies conducting preliminary judicial enquiries with information. The Office issued 400 reports in 1998 and 900 in 1999 (95% of them on bank transactions). Of those 1300 reports, 20 were forwarded to the Prosecutor's office and 2 of them resulted in the initiation of criminal cases. The Office does not apply sanctions directly.

*The Office for the Prevention of Money Laundering has succeeded in establishing good relations with credit and financial institutions (most of them banks). Further specialised training of staff is required.*

The *Securities* Market Commission, established in 1996, ensures proper supervision of the securities market. In 1998 the Securities Market Commission (21 persons) conducted 30 on-site and 34 off-site inspections. In cases where legal violations were discovered, the Commission, within the scope of its powers, issued appropriate disciplinary and administrative sanctions, namely: – orders of the Commission to intermediary companies – 1 (8 in 1997), orders of the commission to brokers/dealers – 0 (2 in 1997), fines to intermediary companies – 3 (€16,111 ), suspended licenses to intermediary companies – 6 (1 in 1997), repeal of licenses of intermediary companies

– 5 (1 in 1997), repeal of licenses of brokers/dealers – 86 (67 in 1997), orders of the Commission to issuers – 18 (0 in 1997), fines to issuers – 3 (€19,048) (5 in 1997).

*The powers of the Securities Market Commission were further enhanced with regard to administrative investigation activities and the performance of audits and control functions.*

The Latvian Central Depository, LCD, (15 persons) is responsible for organising and monitoring securities settlement. The Latvian Central Depository prepares and coordinates with the Bank of Latvia settlement and payment forms for use in the public trading of securities in Latvia. Annual inspections of securities intermediaries are conducted in cooperation with the Securities Market Commission and the Riga Stock Exchange. Fines may be imposed and/or a participant's activities in the Latvian Central Depository can be suspended.

The Latvian *Insurance* Inspectorate has a staff of 22 persons, 4 of which are auditors. The Inspectorate controls the financial activities of insurers and private pension funds and assesses the financial stability of insurers and private pension funds. In 1998, the Inspectorate: conducted 20 inspections of insurance companies, fully audited 7 insurance companies, issued 80 licenses to insurance companies, revoked licenses for all types of operations for two companies, issued 2,122 licenses (to legal persons) and certificates (for natural persons) through insurance intermediaries, issued 1 license to a private pension fund and 3 licenses to pension plans..

*The Latvian Insurance Inspectorate has continued to restructure and to improve the quality of the Latvian insurance market.*

**Competition** : The *Competition* Council has replaced the former State Anti-monopoly Committee and consists of 5 members, who are nominated by the Cabinet of Ministers.

During 1998 the Competition Council initiated 76 investigations, which is a substantial increase compared to the 37 cases in 1997. 58 of the 76 cases are finished, whereas the other 18 cases are still in process. The investigations concerned the abuse of dominant position (23), restrictive agreements (15), mergers (7), unfair competition and misleading advertisement (24) and other (7). In 45 cases there was no violation ascertained, in 8 cases persons voluntarily terminate violation during the investigation. Five decisions of the Competition Council have been appealed in court so far. In 1999, the Competition Council has thus far investigated 45 cases, 21 of which were initiated in 1998.

*Together with its executing body, the Competition Bureau (with a staff of 37 persons), the Competition Council has acquired experience in implementing the new law. The Competition Council has more independence compared to its predecessor, especially regarding the initiation of an investigation or the manner in which an investigation shall be undertaken or a decision shall be adopted.*

The *State Aid* Surveillance Commission, established in 1997, is responsible for the implementation of State aid rules and has extensive powers to carry out its control

functions. Pursuant to the statutes of the Commission, it is an independent body not assigned to any of the ministries. It consists of 13 members delegated by different institutions, including Competition Council. The secretariat of the State Aid Surveillance Commission working on a permanent basis (3 of 7 officials of European integration division of the Ministry of Finance) investigates state aid projects and prepares materials for the meetings of the Commission.

The new State aid projects are registered in a special electronic database. State and municipal institutions must submit all necessary information to the State Aid Surveillance Commission needed for the assessment of proposed aid. It may order the recipient of illegal state aids to repay illegally granted assistance, issuing a decision which is enforceable in court. It is noted that the recipient of illegal aids has no right to ask for compensation for losses caused by recovery of illegally granted state aids. Companies which suffered due to illegal aids granted to their competitors are entitled to receive remuneration from liable state or municipal institution. Apart from handling new aid plans, it has also influenced legislation concerning regional aid, aid to SMEs, development of mortgage loans, export financing and guarantees. It has approved a total of 8 projects in 1998 (in most cases subject to conditions). During the first half of 1999, the Commission received no new notifications.

*Latvia has made significant progress in the field of state aids with the establishment of an independent State aid Surveillance Commission, which is fully functioning.*

**Telecommunications :** There are currently two regulatory bodies: the Department of Communications of the Ministry of Transport (13 persons) and the Telecommunications Tariff Council (7 elected members and 6 support staff). The Department of Communications is mainly in charge of quality and licensing, certification and standardization in the field of telecommunications and postal services. The Telecommunication Tariff Council includes representatives from the consumer rights protection, the telecommunication association, the municipalities, the trade unions and the institute of telecommunication.

A separate body, the Department of Informatics, at the Ministry of Transport deals with information society matters.

The Latvian Telecommunications State Inspectorate has 65 staff members. It is financed through fees and tariffs. Its main tasks include the distribution of licenses and the attribution of frequencies.

Six ministries are at present involved in the administration of the postal sector, with the Ministry of Transport holding the main responsibility under the present postal law (1994). There is, as of now, no independent postal regulatory body, and the functions are presently carried out by the Communications Department of the Ministry of Transport.

*In accordance with EC law, it is important that an effective and properly resourced regulatory authority be established in the telecommunications field whose responsibilities are clearly independent from those of the telecom operator.*

**Audiovisual services** : The National Radio and Television Council, NRTC, (9 persons in Secretariat) is responsible for the effective application and enforcement of audiovisual legislation. The Council has nine members who are elected by the Saeima, and, is responsible for overseeing the public broadcasting budget, issuing licenses, receiving and processing complaints and monitoring of observance of the legislation. The powers of sanction of the Council consist of (1) issuing a warning against the broadcasting organisation, (2) preparing a statement on administrative violation and forwarding it to the courts which are ultimately responsible for imposing fines and (3) annulling the broadcasting license. The Council is currently a shareholder of the public corporation Radio and Television Broadcasting. Public broadcasting is partially financed from the state budget (less than 50%); the remainder is raised through advertising and a small percentage comes from sponsorship.

*In order to carry out its activities in accordance with EU best practices the National Radio and Television Council requires strengthening in terms of human and financial resources. Further progress needs to be made in the establishment and consolidation of an effective, independent monitoring and sanctioning system.*

**Customs and taxation** : In Latvia the State Revenue Service, SRS, is responsible for three main functions : tax administration (approximately 2600 persons), customs (1753 persons) and the financial police (125 persons). Apart from headquarters, there are 33 regional offices with both customs and tax administrators. Of these, 6 offices have been merged into one larger regional office on a pilot basis. Preparatory work has begun on the introduction of a 3-level tax administration system. It is planned to rationalise this structure and reduce the number of offices from 33 to 7-10 (by way of merging the existing offices) in order to improve the efficiency and effectiveness of their activities. The Customs Board prepares overall action plans, issues licenses for customs warehouses, oil products warehouses, duty-free shops, customs brokers, guarantee certificates, determines the precise CN code of goods and supervises overall customs activities of the regional offices.

In addition to the State Revenue Service, the Department of Customs Legislation (12 persons) and the Tax Policy Department (29 persons) within the Ministry of Finance are responsible respectively for drafting laws, international agreements and other legal acts on customs and taxes and duties.

The Financial Police disclose and prevent fraud in the sphere of state revenues, conduct preliminary investigations of smuggling cases, criminal offences in the activity of the SRS and ensure the security of SRS employees while they are performing their professional duties.

*Human resources in the customs and taxation administration are improving. Lack of training, however, and unclear definition of the powers and functions of customs officers are issues which need to be addressed further. Greater coordination is needed between those services responsible for policy making and drafting of legislation and those responsible for implementation.*

*In the the same vain, improved coordination is needed between the Central Customs Board and the regional offices which has in the past not been wholly effective in terms of ensuring enforcement of legislation and also the implementation of new*

*computerised systems. The decision to make the regional offices subordinate to the Customs Board (previously the regional offices were not answerable to the Customs Board) as of June 1999 is a welcome development. Far greater efforts however will still be required to strengthen the operational capacity of the administration.*

**Agriculture :** The Latvian Ministry of Agriculture comprises a small central unit and a number of subordinated and supervised bodies carrying out specialised functions as follows : Central Ministry of Agriculture (120 persons), 26 regional Agricultural Departments (1400 persons), Border Sanitary Inspectorate (250 persons), State Seed Inspectorate (140 persons), State Plant Protection Service (120 persons), State Grain Inspectorate (15 persons), Land Improvement Board (50 persons), State Food Quality Inspectorate (7 persons) and State Veterinary Service (604 persons).

The Department for Control of Products of Animal Origin operates under the auspices of the State *Veterinary* Service. There are several state institutions and ‘companies’ (non-profit State Joint Stock companies) operating under the authority of the Ministry of Agriculture, namely the Grain Trade Agency, State Scientific Production Enterprise “Raziba”, State Plant Variety Centre, Experimental Stations Technical Inspection Service (non-profit Joint Stock Company) Rural Development Fund (non-profit Joint Stock Company) etc.

To prepare for the participation in EU pre-accession funds (SAPARD) as of next year, an Agency of Rural Structural Programmes was established in December 1998.

*The Ministry of Agriculture needs to put in place those structures required to apply CAP policies and instruments, to implement and enforce Single Market measures in the area of veterinary, phyto-sanitary and food control policy, to implement EU structural, rural development and agri-environmental policies at national and sub-national levels, and to manage and properly control EU pre-accession funds expenditure in Latvia. For a number of functions, new institutions will have to be created (intervention and subsidy payment agency, field inspection agency etc.) which do not exist at the moment. In other areas rationalisation may be needed to avoid duplication of activities, with particular reference to the veterinary and phytosanitary field.*

*A clear definition of inter-ministerial and inter-agency boundaries has not been established yet. As an illustration, the Sanitary Border Inspection Service is separated from the internal Plant Inspection and Veterinary Service. This lack of rationalisation could hamper the implementation of the acquis in the veterinary and phytosanitary field.*

*The present laboratory structures for implementing EC legislation need to be upgraded and a more strategic approach is required as to the equipping of laboratories.*

*There continues to be a need for strengthened coordination of EU accession related work within the Ministry for Agriculture, for training in EC law and for additional resources to be allocated to the legal approximation process, in particular as regards veterinary, phytosanitary and food control areas, as reported in the 1998 Regular Report. The Ministry of Agriculture and the 26 regional departments remain ill-*

*prepared and understaffed for obligations with regard to structures, rural development and agri-environmental measures.*

**Fisheries :** The National Board of Fisheries (24 people) of the Ministry of Agriculture is responsible for overall fisheries sector management (including allocation of fishing quotas) and its development strategies, and implementation of the *acquis*. In compliance with the Latvian Fishery Law it supervises the management of fish resources in inland, territorial and economic zone waters, whereas the protection of these resources falls under the responsibility of the Ministry of Environmental Protection and Rural Development. The National Board of Fisheries also supervises the Latvian Fisheries Research Institute, which performs scientific research on fish resources.

The National Board is also responsible for the collection of statistics. Data collection on landings commenced in 1999

The Marine Environmental Board conducts fisheries control and enforcement in the Latvian part of the Baltic Sea. The Board ensures the inspection of vessels in the territorial and economic zone waters, compliance with the fishing regime and regulations, the issuing and annulment of fishing licences and the control of fish landing and first sale transactions in ports. Currently the Board employs 10 inspectors. Their salaries are paid out of the fish fund and their technical equipment is paid for out of the environmental fund of the Ministry for Environmental Protection and Regional Development.

*Further resources shall be required in order to fully upgrade the inspection and control system. Administrative structures also need to be improved in order to implement the Common Fisheries Policy.*

**Energy :** The Ministry of Economy is responsible for the sector's development strategy and policy, as well as privatisation. Its Energy Department consists of 12 persons. The Energy Department of the Latvian Development Agency is also involved in the preparation of draft legislation and the coordination of programmes and cooperation projects with third countries. Licence awards for energy sector operators are undertaken, and tariff setting is today monitored by the Energy Regulation Council, which is independent of the Ministry. The Energy Law specifies an Energy Regulation Board (Chapter 13) which would be supervised by the Ministry, issue licenses, monitor tariffs, set administrative procedures and tariff methodologies, judge cases of dispute, promote efficiency and renewable energy sources and fulfil information obligations to state and public, and implement the national energy programme of Latvia.

An Emergency Situation Committee exists, which, in theory, has the powers to create a Crisis Centre for managing an energy crisis.

Today, energy prices are proposed by Latvenergo and reviewed by the Energy Regulation Council. The Energy Regulation Council and its executive Licensing Office together employ 28 persons. The Council is involved in licensing, tariff approval, and drafting of regulations. By the end of 1998, the Council had issued 30

licenses to electricity supply utilities, 73 to heat supply companies, 4 to natural gas companies and 7 to liquid natural gas supply companies.

Until the creation of the Radiation Safety Agency, responsibility for the sector remains with the Radiation and Nuclear Safety Control Division of Environmental State Inspectorate under the Ministry of Environmental Protection and Regional Development. There are at present five inspectors.

**Transport :** Overall responsibility for the sector lies with the Ministry of Transport, which comprises the central administration (132 persons), the state agencies and the enterprises under the responsibility of the Ministry. Within the central administration, there are departments for road transport, rail transport, aviation, maritime and passenger transport. An Under State Secretary has a special responsibility for EU integration issues and chairs a coordination mechanism between the departments, who are all individually responsible for alignment to the *acquis* in their sector.

The Latvian *Road* Administration, a non-profit state joint stock company, has significantly increased its staff to 215 employees, mainly dealing with issuing licences, monitoring road safety and maintenance works as well as inspection and supervision of roads and construction sites. New regulations of the Cabinet of Ministers on Management and Usage of the State Road Fund entered into force in February 1999. The registration of vehicles, issuing of driving licenses and many other regulatory and administrative measures concerning road traffic safety (road accidents database) is covered by the State JSC Road Traffic Safety Directorate, with about 600 employees all over the country.

The new *railway* administration established in July 1999 under the Ministry of Transport (Railway Department) comprises the Railway Administration as regulatory body, responsible for licensing of railways, and the Railway Technical Inspectorate with safety control and supervision function.

In the *air* sector, the administrative structures consisting of the *Aviation* Department of the Ministry of Transport and the Civil Aviation Administration (36 persons) are in place and operate without problems.

Under the Ministry of Transport *Maritime* Department several sub-units, working within the Latvian Maritime Administration, exist, such as the Certification Unit with 2 employees (controlling the conformity of ships regarding ISM), the Communication Unit dealing with the Latvian information and communication system, the Ships register, the Ships Technical Inspections (8 employees), Port State Control (9 inspectors) and the Seamen's register. At present Latvia cooperates with 7 Classification Societies, one of which is not recognized by the EU.

*The administrative capacity needs to be further strengthened particularly in the field of transport of dangerous goods inspection and control of social rules in road transport. Both the Railway Administration and the Inspectorate are small in size and may require further strengthening. An independent investigation authority to comply with the acquis on the investigation of civil aviation accidents has not yet been established. The capacity to administer the ground handling and slot allocation on Latvian airports seems to be sufficient at present. Further strengthening is required,*

*in particular the flag state administration needs further strengthening, in order to meet the high requirements of the EC acquis and other international rules issued by the IMO. Latvia has to pay more attention to the fact that the progress made on transposition and implementation of the acquis needs to be consolidated by establishing the appropriate administrative infrastructure, for example in the field of road safety and maritime safety.*

**Employment and social policy :** The Latvian Ministry of Welfare (177 persons) has wide responsibilities covering labour market policies, social insurance, social assistance, health care provision and health finance. Four working groups for coordination of issues related to European integration have been established (Labour, Social affairs, Public health and Pharmaceuticals). The Ministry of Welfare also monitors a number of major agencies including the State Labour Inspectorate (164 persons), the State Employment Services (529 persons), the State Pharmaceutical Inspectorate (20 persons) and the State Agency of Medicines (65 persons). Today the State Labour Inspectorate has 180 staff and 7 regional offices. Further strengthening of its capacities is needed. It will also be important to improve the coordination between the different actors involved in enforcing health and safety requirements, such as the State Labour Inspectorate, the Sanitary Inspectorate for hygiene issues, the Environmental Inspectorate, and the Maritime Inspectorate.

*The Ministry of Welfare has made efforts to allocate sufficient staffing and resources to meet its responsibilities for the implementation of the acquis. Its efforts however appear to be undermined by a high staff turnover and poor coordination between institutions. The structure of the Ministry of Welfare is still rather administrative and not properly adapted to the design and implementation of social and economic programmes, such as employment generating programmes and the fight against social exclusion, community health care and so on. As regards the administrative capacity to work with the European Social Fund, some initial training has been given to relevant people in the Ministry of Welfare and the Ministry of Finance however awareness is still very low.*

**Regional policy and cohesion :** The Ministry of Environmental Protection and Regional Development is primarily responsible for regional policy in Latvia.

The Regional Development Council ensures coordination between ministries. It is chaired by the Ministry of Environment and Regional Development and comprises representatives of the ministries concerned and representatives of Parliament. Its specific tasks include the design of Latvia's Regional Development strategy and the National Development Plan.

The Structural Funds Coordination Division, within the Foreign Assistance Programmes Coordination Directorate, has, at the working level, the lead role in the preparation process for Latvia's implementation of EU structural funds support. This work is supervised by the National Aid Coordinator, the Minister of Special Tasks.

*Latvia needs to continue to strengthen its institutions responsible for regional policy and cohesion. Administrative and budgetary procedures should be organised in view of structural funds rules. In particular, the monitoring and control system need to be considerably improved. The capacity to perform evaluations of the different*

*programmes will have to be developed in view of Latvia's future participation in the EU Structural Funds.*

**Environment** : The Ministry for Environmental Protection and Regional Development (MEPRD) employs currently 1440 persons, of which 1328 work in subordinated organisations and 112 in the ministerial central body. The Ministry consists of six departments: environmental protection, regional development, building, investment, legal matters and administrative affairs. The Ministry operates at three levels: the central administration, the state agencies and the enterprises under the responsibility of the Ministry.

Several changes in the structure have been undertaken to reinforce capacities in relation to EU matters:

The department of environmental protection was allocated additional staff to reinforce capacities for EU approximation (now total of 20 officials and approximately ten short/long term assistants in institutional capacity building projects).

An EU Financing Unit has been recently established under the Investment Department to deal with the Phare Programme and ISPA and is staffed with 4 employees.

A State Environmental Impact Assessment Bureau (7 persons) has been established in January 1999. It is responsible for the implementation of EIA legislation. The staff of the new Bureau will now have to be trained.

Two new units were created to strengthen capacities for Municipal Solid Waste Management: a project implementation unit and a central project support unit to assist municipalities in project management.

To coordinate EU-related issues, the following mechanisms exist in the Ministry: The Steering Committee for coordination of European integration ministry-wide consists of the State Secretary, the Deputy State Secretary and the Directors of the line Departments. It meets at least once a quarter.

The European Integration Unit is the focal point for day-to-day co-ordination. The number of employees has been increased from 3 to 7 in early 1999.

The European Integration Working groups are inter-ministerial groups with representatives from all involved ministries and other institutions. There are working groups for the main environmental sectors such as Water, Waste, Air Pollution, Chemicals, Nature protection, Industrial pollution and Nuclear Safety. The groups were established in 1998.

*A rather high number of authorities and institutions are involved in the implementation and enforcement of the environmental legislation. Latvia has identified the need to restructure and clarify the respective responsibilities. Some steps have been taken concerning the establishment of new/restructures institutions, i.e. the establishment of the State Environment Impact Assessement Bureau. There*

*still remains significant work to establish a structure that can fully apply and enforce the acquis.*

**Consumer protection :** Within the Ministry of Economy, the department for Quality Management and Structure Development includes a unit dealing with Consumer Rights Protection (4 persons). The division's main tasks are to elaborate and coordinate legislation and policy concerning consumer rights and interests as well as to coordinate other activities in this area.

The Consumer Rights Protection Centre was established in March 1998, (34 persons) under the Ministry of Economy. The statutes of the Centre state that it is responsible for the observance of consumer rights in the areas of goods and services (excluding areas controlled by other institutions such as food, veterinary issues and pharmaceuticals). The Centre carries out control of the activities of trade and service enterprises, advertising activities, reviews consumer complaints, and provides assistance in resolving conflicts in the area of trade, services and consumer protection. The Centre may impose fines and confiscation goods as provided for under the Administrative Code. One regional office of the Centre was established in Rezekne in 1998.

*Latvia is at the early stages of developing a consumer protection policy and establishing the necessary institutions in the field of consumer protection. Further work is needed to ensure full protection of consumers' rights.*

*The Consumers Rights Protection Centre is also responsible for market surveillance for non-food products however human resources in this field are limited and an insufficient number of inspectors have been trained. Furthermore a proper legislative framework for market surveillance has not yet been put into place.*

**Justice and home affairs :** The Ministry of Justice (116 persons) in Latvia has three main functions; 1) legislative drafting and the submission of legal opinions, 2) administration of courts of the first two levels, 3) legal registration and supervision of registers. In addition several autonomous legal agencies are under the authority of or supervised by the Ministry. These are: the State Land Service (3054 persons), the State Language Centre (23 persons including 18 inspectors), the Naturalisation Board (155 persons), the Patent Office (32 persons), the General Directorate of State Archives (26 persons) and the Register of enterprises (74 persons).

Within the Ministry of Justice, a division for European Affairs already existed in the Department of International Law. As concerns European affairs within the Ministry of the Interior, the following structures are of relevance: the Deputy State Secretary responsible for international relations, the European Integration division within Department of International Relations and the inter-departmental commission set up by the Minister to prepare the NPAA. This commission has working groups for migration, asylum, border guards, organised crime, police issues and customs, corruption (together with Ministry of Justice), and participates in the working group on the Third Pillar chaired by the Ministry of Foreign Affairs.

As part of a wider restructuring a new department for European Affairs within the Ministry of Justice was established in August 1999.

*The extent of coordination between agencies fighting organised crime, the precise definition of their respective roles/remit and the supervisory role of the Ministry of the Interior need to be clarified. The staff of both the Ministries of Justice and Interior need further training on EU issues.*

The Minister of Justice chairs the Corruption Prevention Council. Other members of the Council are the Minister of Interior, the Minister of Finance and representatives from the State Audit, the State Revenue Service, the Prosecutors Office, the Economic Police, the Public Administration School and the NGO “Transparency International”. The Council meets at least once every quarter. The task of the Corruption Prevention Council is to co-ordinate the efforts undertaken by the different institutions under the “Corruption Prevention Programme”. The Council also reviews progress and conceives the programme for the following year.

*So far the Council has succeeded in enhancing the State Revenue Service section which deals with the personal declarations of income of public servants. Additionally it has contributed to the amendments to the Criminal Law in order to fight corruption in the private sector. The Council has also been instrumental in securing Latvia’s accession to the Council of Europe Criminal Law Convention on Corruption. Finally, it has organised conferences on the subject in co-operation with the World Bank and the Public Administration School. The Council does not yet have a permanent secretariat.*

The State Police Department is under the supervision of the Ministry of the Interior. The State Police is composed of 11 203 people throughout the country. The head of the State Police is appointed by the Cabinet of Ministers on the recommendation of the Minister of the Interior. The Minister of the Interior has the right to cancel any illegal order of the State Police. The State Police is financed from the state budget (€ 56 million) as well as partially self financed. The current Law (in the process of being amended) stipulates that €4.85 million of the budget have to be self-generated through fines. Latvia has been a member of Interpol since 1992. Close relations are maintained with Europol.

*The Police need increased budgetary resources for training and up-grading of facilities in order to improve performance and to attract personnel (there are 886 vacancies in the police force at the moment). Staff turnover for 1998 was at 6.5% and for the first half of 1999 – 2.9%.*

The State Border Guards are under the supervision of the Ministry of the Interior. The total number of border guards in 1997 amounted to 4500, a large number of which were conscripts. In an effort to “professionalise” the force, 2000 persons were laid off. Recruitment since has increased bringing their total number to 3018. The mandate given to the border guards duplicates, in some areas, that of customs officers and of the State Police (in case of illegal crossing of the border or crime linked to the border, border guards are mandated to pursue their search beyond the established 15 km

border zone). The State Sanitary Inspection units found at border crossings are independent of the border guards, falling under the supervision of the Ministry of Agriculture. This further contributes to the multiplication of checks being performed by different authorities at the borders.

*Latvia is gradually improving the border control with increases in equipment and infrastructure reflecting the increased budgetary support. The border management systems however on the eastern border need a substantial increase of human and financial resources to become efficient. Further training in general is required.*

**Financial control :** The State Audit Office (SAO; 173 employees, of which 120 are auditors), an independent collegiate institution, is the central institution of the Latvian system for monitoring the use of state and local government budgets. The SAO can request the dismissal of public servants responsible for losses in the state budget. During an audit, the SAO assesses the work of *internal* control structures and delivers recommendations on necessary improvements. The SAO consists of four departments responsible for the State budget, state economic activities, the privatisation process and local government. A total of 250 audits were carried out in 1998.

Internal audit units have only been set up in a few Ministries so far (5 employees in internal audit unit of Ministry of Finance; 6 employees in Ministry of Agriculture; financial planning and control department in State Revenue Service: 13 persons).

The National Fund legislation of 1999 foresees that the internal audit units in the line ministries will check on the use of EU funds and sets out the responsibilities of the Ministry of Finance, Treasury and Implementing Agencies in the approval, tendering, contracting and payments procedures.

*Limited progress has been made regarding the establishment of an appropriate legal and institutional framework for internal audit in Latvia. Sufficient financial and human resources need to be allocated for the establishment of and/or the strengthening of internal audit units. Co-ordination of preventive actions and follow up and reporting on irregularities in Latvia need to be developed further.*

*The external financial control (State Audit Office) partially meets the requirements of EU guidelines for adequate audit of public funds and expenditure. There is no parliamentary committee with specific responsibility for considering the reports of the State Audit Office, nor are there any formal arrangements concerning follow-up and review of actions taken by government.*

In the field of statistics the Central Statistics Bureau has a staff of around 200 in its Headquarters and approximately 170 in its 28 regional offices. In addition, around 100 interviewers are contracted on a regular basis. Staff turnover in 1998 amounted to 10%. It is responsible for central coordination, and the main, albeit not exclusive, producer of statistics in Latvia.

## C. Conclusion

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

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.

Economic activity in Latvia slowed significantly as a result of the Russian crisis. In this difficult external environment, macroeconomic and financial sector stability were maintained as a result of an appropriate policy response by the authorities. These adverse external circumstances have served as a catalyst for favourable developments in the financial and enterprise sectors; prudential regulations have been strengthened and the financial sector continues to deepen. Despite the slowdown in the European Union economy, Latvia has continued to increase its exports to the EU.

In the coming period, the authorities should focus on the maintenance of macroeconomic stability, in particular through the effective control of public finance. In addition, the Latvian authorities should work to remove the remaining bottlenecks to enterprise activity and investment. Privatisation of the few remaining large enterprises should be completed. Investment in infrastructure and developing of skills of the labour force should continue so as to sustain the long-term growth of productivity, and to continue to make Latvia an attractive destination for foreign direct investment.

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

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

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

## **D. Accession Partnerships and National Programmes for the Adoption of the *Acquis*: Global assessment of implementation**

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

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

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

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

#### *Short-term priorities*

The short-term priorities of the Accession Partnership<sup>8</sup> and an assessment of the progress made concerning their fulfilment are indicated below.

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<sup>8</sup> Council Regulation 622/98, OJ L85 of 20 March 1998

- **Political criteria:** *take measure to facilitate the naturalisation process to better integrate non-citizens including stateless children and enhance Latvian language training for non-Latvian speakers.*

**Assessment :** Following the liberalisation of the Citizenship Law in the autumn of 1998, there was a rapid increases in the numbers or requests for naturalisation, although the number of requests for naturalisation for stateless children remains low. The Latvian Language Programme has been continued successfully, however, there is still a significant shortage of language teachers. More funds for language training will have to be earmarked by the government in the coming years. Therefore, this priority has been partially met.

- **Economic criteria:** *establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe Agreement; acceleration of market-based enterprise restructuring, in particular through the completion of the privatisation process; continued strengthening of the banking sector; modernisation of the agriculture sector and establishment of a land and property register.*

**Assessment :** While privatisation is virtually complete as concerns SMEs, several large state enterprises in particular in the utilities sector have yet to be privatised. Further efforts in enterprise restructuring will be needed for several years to come, and the bigger-than-expected impact of the Russian crisis might have provided some additional impetus to this process. In the agricultural sector, several initiatives were undertaken including the introduction of a credit guarantee fund, but, as became apparent in the aftermath of the Russian crisis, further efforts at modernisation will be necessary. Land registration continues, with the State Land Cadastre almost complete, but with registration in the Legal Register still relatively low. Therefore, this priority has been partially met.

- **Reinforcement of institutional and administrative capacity:** *further structural reform of public administration is needed and in particular customs and tax administration, financial control capacity, reinforcement of the agriculture ministry and the establishment of a training strategy for the judiciary, reinforcement of the veterinary and phytosanitary administrations, particularly as regards facilities at external borders, institutional strengthening in the area of environment, begin to set up structures needed for regional and structural policy.*

**Assessment :** Very limited progress has been made in the area of public administration reform, and many of the Government commitments, as outlined in successive policy documents have not yet been carried out. Concerning the Customs Administration, the decision to make the regional offices subordinate to the Customs Board should facilitate the enforcement of legislation. Training opportunities for the judiciary have been increased. In the areas of agriculture, environment and regional and structural policy, sustained efforts aimed at restructuring and reinforcement are required. Therefore, this priority has been partially met.

- **Internal market:** *further alignment including in the areas of intellectual and industrial property rights, public procurement, financial services, competition,*

*state aids and indirect taxation, adoption of a law on state aid and increased transparency through improvement of the aid inventory and reinforcement of the new anti-trust authority.*

**Assessment :** Alignment has progressed in all related areas. However, some further efforts are necessary (to a greater or lesser degree) in the areas of public procurement and intellectual and industrial property rights, indirect taxation and insurance. In the field of competition and state aids, further progress has been achieved. The Competition Council and State Aid Surveillance Commission are fully functioning. The 1998 Annual Report on State aid has been further improved from previous years. Therefore, this priority has been partially met.

- **Justice and Home Affairs:** *in particular further efforts to implement measures to combat corruption and organised crime and to continue judicial reform.*

**Assessment :** In the fight against corruption, progress has been made in the legislative area (i.a. entry into force of new Criminal Code) and in the relevant institutional structures. Latvia, however, still faces a serious problem with corruption, and a much greater effort needs to be made to tackle this issue. As concerns judicial reform, important achievements have been made concerning the enhancement of the status of judges and the functioning of the court system. Nevertheless, a number of issues remain to be addressed in this area (legislation on court bailiffs, infrastructure of courts, length of prison sentences etc.). Therefore, this priority has been partially met.

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

**Assessment :** Latvia has made progress in transposing horizontal legislation and has also proceeded with the alignment of legislation on air and water quality, waste management and industrial pollution. Implementation plans for the different sectors have been further refined. Greater efforts are, however, required, and increased emphasis will now have to be paid to implementing and enforcing new standards. Therefore, this priority has been met.

Latvia has achieved considerable progress in addressing the short term Accession Partnership priorities. Attention still needs to be paid to accelerating transposition of Internal Market legislation and to more fully addressing the administrative capacity priority both on a structural (Public Administration Reform) and sectoral level

### *Medium-term priorities*

Only the medium-term priorities of the 1998 Accession Partnership that have been met are mentioned below:

- **Political criteria:** *Accelerated integration of non-citizens by facilitating the naturalisation process including for stateless children.*

**Assessment :** The procedures to apply for naturalisation have been further simplified (reduction in number of questions in history test; reduction in fees for several groups of candidates) in accordance with the recommendations made by the OSCE. The Government has addressed the major outstanding problem concerning the capacity of the Naturalisation Board and its branches to receive and process the increasing numbers of requests by according additional funds in the spring of 1999.

- **Economic reforms:** *strengthening of competition policy.*

**Assessment :** Latvia's competition policy is already well advanced.

- **Economic policy:** *focusing on ... the acquis in the area of economic and monetary policy.*

**Assessment :** Latvia has brought its legislation closely in line with EU requirements in preparation for participation in Economic and monetary union.

- **Reinforcement of institutional and administrative capacity:** *improved operation of the judicial system, training for the judiciary in Community law and its application, reinforcement of justice and home affairs institutions (ensuring sufficient and properly trained personnel in particular police, border guards, ministries and courts)*

**Assessment :** Reforms have been carried out to improve the functioning of the judicial system, and training opportunities for judges in Community law have been provided. Concerning the reinforcement of Justice and Home Affairs institutions, progress has been made in securing the eastern border and enhancing the professionalism of the Border Guard.

- **Internal market:** *including alignment of legislation in the fields of...audiovisual policies...upgrading of standardisation and conformity assessment structures, establishment of a market surveillance system and alignment of horizontal technical legislation on industrial products, further alignment of competition legislation in particular in the field of state aid, reinforcement of the anti-trust and state aid authorities*

**Assessment :** The entry into force of amendments to the Law on Radio and Television represent a positive step forward in the audiovisual sector, however further modifications will be necessary. On free movement of goods, the adoption of standards is progressing, and Latvia has made progress in strengthening its implementation structures. In the area of competition and state aids, legislation is now closely in line with the acquis, and the anti-trust and state aid authorities are fully operational.

- **Justice and Home Affairs:** *implementation of migration policy...and to align visa policy with that of the EU.*

**Assessment :** The new visa legislation adopted in April 1999 represents a significant step towards fulfilling EU standards.

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

**Assessment :** Latvia continued towards alignment with the *acquis* and to invest in transport infrastructure. Progress was particularly apparent on the railways.

- **Environment:** *Environmental protection requirements and the need for sustainable development must be integrated into the definition and implementation of national sectoral policies.*

**Assessment :** Latvia has addressed the issue of the integration of environment into other sectors in its National Environmental Policy Plan and related Action Programme.

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

The latest edition of Latvia's National Programme for the Adoption of the *Acquis* (NPAA) was adopted by the government on 15 June 1999.

As in the previous edition, the NPAA is divided into four main parts in accordance with the Copenhagen political, economic, *acquis* and administrative capacity criteria. Each of the four parts cover several sectors in order of the Commission's Regular Report. Around 100 technical fiches, which contain both project proposals and implementation plans, complement the main body of the NPAA. In addition, financial fiches for each action to be undertaken are included. Each project fiche contains a justification for the respective measure, references to the Commission's documents as appropriate (Opinion, Regular Report and Accession Partnership), results achieved in 1998, risks involved in carrying out a certain measure, the responsible institution, the EU *acquis* that needs to be implemented and related institution building implications.

In order to ensure ongoing monitoring of the timely implementation of the NPAA, as well as to allow for it to be easily updated, an electronic management system (European Integration Information System) has been devised by the Latvian European Integration Bureau (EIB) with some support from the Phare programme. The system is accessible for all line ministries, each of which has appointed a contact person.

The political and economic sections of the NPAA are well prepared and provide a comprehensive analysis. Little reference, however, is made to the medium-term perspective. For the part of the NPAA covering the *acquis*, the 1998 Regular Report had suggested that more extensive coverage in several areas would be useful. Substantial improvements in this respect can be noted, as the project fiches now offer very detailed information. There are still some omissions in a few sectors (e.g. civil

protection and climate change missing in environment section; directives on interoperability of high-speed railways and summertime arrangements as well as EU international agreements missing in transport sector; not all the *acquis* on equal treatment included; *acquis* on fight against racism and on disability not included). In addition, some factual inaccuracies appear (some restrictions still existing in capital movements not mentioned; inconsistent information in audiovisual sector). Further attention could be paid to the section on Regional Policy as well as the legislative developments in the medium term in all sectors.

Following the recommendation of the 1998 Regular Report, the NPAA now also includes Directive-specific transposition deadlines with detailed steps to be followed. For the most part, these appear realistic with a few, perhaps, too ambitious (e.g. in areas of free movement of goods or occupational health and safety) or not ambitious enough exceptions (e.g. land transport).

The information provided in the NPAA is generally consistent with that provided by Latvia in other fora such as meetings under the Europe Agreement or the bilateral screening exercise. Some specific shortcomings identified during the screening exercise (for example in the area of Justice and Home Affairs) still need to be integrated into the NPAA project fiches. As concerns the indicated deadlines, some minor deviations from the information provided during the screening meetings can be noted (for example the Four Freedoms and environment, for which needs for transitional arrangements were indicated during the screening but are not mentioned in the NPAA).

The NPAA contains extensive references to the Accession Partnership priorities and the analysis of the Commission's Opinion and Regular Report. For ease of reference, an Annex to the NPAA contains a summary table listing all Accession Partnership priorities with the corresponding NPAA project fiches to implement them.

Each project fiche refers to the institutional needs required to achieve the respective objectives. While the 1998 NPAA contained a few gaps in this area, the 1999 edition covers these aspects in more detail. However, some questions are still left open. In particular, no numbers of new staff or extent of training needs and planned activities are mentioned.

The 1998 Regular Report suggested that the budgetary implications should be further assessed. In the updated version, the NPAA project fiches have been accorded corresponding financial fiches for those actions for which financial commitments have been made in the Latvian National Budget. The sources of financing are identified as the National Budget, Phare, bilateral assistance or other funding. In addition, the scheme of the fiches already includes ISPA and SAPARD, to be filled in as these sources become available. The method of only indicating financial aspects for those actions for which funding has already been secured, presents a realistic picture. However, it does not allow one to draw conclusions on the real financial implications of preparing for membership. Aware of this shortcoming, Latvia intends to develop a multi-annual perspective for its national budget and to fully integrate the NPAA financial planning into the national budget. In order to further improve the financial part of the NPAA, the indicated aggregate sums for each action should be broken

down into the uses to which they will be put (development of legislation; cost of additional staff; cost of training for staff etc.).

The Latvian NPAA aspires to be a single, coherent and living national management framework. As with the previous version, it is called the “National Programme for Integration into the EU” so as to enhance public recognition. Part four of the NPAA, “preparing the administration for membership”, is at the same time Latvia’s Institution Building Plan. The National Development Plan, once finalized, will also be part of the NPAA. While generally providing an excellent overview of all aspects related to preparations for EU membership and referring to many related documents/instruments (European Social Fund; Third Multiannual Programme for SMEs etc.), the NPAA does not yet contain all the information that would be necessary in order to function as a self-sufficient source in all areas (for example Justice and Home Affairs, where more information concerning the content of legislative amendments would be necessary or environment, where it is not always clear to what degree certain legislative measures will transpose the *acquis*). The userfriendliness of the document is somewhat hampered by its sheer volume and the large number of annexes, fiches etc., and the lack of a concise executive summary.

The NPAA refers to the involvement of the regional and local levels in several sections (including environment; regional policy). The focus, however, remains on the national level.

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

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

X = Convention ratified

O = Convention NOT ratified

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

## **Annex**

### STATISTICAL DATA

## STATISTICAL DATA

	1994	1995	1996	1997	1998
Basic data	in 1000				
<b>Population (average)</b>	2 548	2 516	2 491	<b>2 469</b>	<b>2 449</b>
	Km <sup>2</sup>				
<b>Total area</b>	64 589	64 589	64 589	64 589	64 589
National accounts	1000 Mio Lats				
<b>Gross domestic product at current prices</b>	<b>2.0</b>	<b>2.3</b>	<b>2.8</b>	<b>3.3</b>	<b>3.8</b>
	1000 Mio EURO				
<b>Gross domestic product at current prices</b>	<b>3.1</b>	<b>3.4</b>	<b>4.0</b>	<b>5.0</b>	<b>5.7</b>
	EURO				
<b>Gross domestic product per capita at current prices</b>	1200	1400	1600	2000	2300
	% change over the previous year				
<b>Gross domestic product at constant prices (nat. currency)</b>	<b>0.6</b>	<b>-0.8</b>	<b>3.3</b>	<b>8.6</b>	<b>3.6</b>
	in Purchasing Power Standards				
<b>Gross domestic product per capita at current prices</b>	4200	4300	4700	5200	5500
Structure of production	% of Gross Value Added <sup>9</sup>				
- Agriculture	9.5	10.8	9.0	5.8	4.7
- Industry (excluding construction)	25.4	28.1	26.4	27.4	24.3
- Construction	5.9	5.1	4.7	4.8	5.2
- Services	59.2	56.0	59.9	62.0	65.8
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	78.8	84.8	89.3	85.7	90.2
- household and NPISH	58.7	62.6	67.6	66.6	63.9
- general government	20.1	22.2	21.6	19.1	26.3
- Gross fixed capital formation	14.9	15.1	18.1	18.7	20.1
- Stock variation <sup>10</sup>	4.2	2.5	0.7	4.0	2.9
- Exports of goods and services	46.5	46.9	50.9	51.0	47.7
- Imports of goods and services	44.4	49.3	59.0	59.5	61.0
Inflation rate	% change over the previous year				
<b>Consumer price</b>	35.9	25.0	17.6	8.4	4,7
Balance of payments	Mio EURO				
- Current account	169	-14	-220	-305	-632
- <b>Trade balance</b>	-254	-444	-629	-748	-1 007
<i>Exports of goods</i>	860	1 047	1 172	1 621	1 798
<i>Imports of goods</i>	1 114	1 491	1 801	2 369	2 805

<sup>9</sup> Including FISIM.

<sup>10</sup> These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

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- Services, net	304	362	302	327	251
- Income, net	7	14	33	49	48
- Net current transfers	112	54	74	68	75
<i>of which</i> government transfers	90	27	40	29	37

	1994	1995	1996	1997	1998
<b>Public finance</b>	in % of Gross Domestic Product				
General government deficit/surplus	-1.9	-2.9	-1.1	1.8	0.3
<b>Financial indicators</b>	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	10.2	12.3	10.2	9.0	10.8
Monetary aggregates	in 1000 Mio EURO				
- M1	0.5	0.5	0.6	0.8	0.9
- M2	0.7	0.5	0.6	0.9	1.0
- Total credit	0.7	0.5	0.5	0.7	1.0
Average short-term interest rates	% per annum				
- Lending rate	35.3	28.3	19.1	15.1	13.1
- Deposit rate	31.7	14.8	11.7	5.9	5.3
EURO exchange rates	(1EURO=...National currency)				
- Average of period	0.6641	0.6895	0.6996	0.6594	0.6602
- End of period	0.6690	0.7029	0.6956	0.6566	0.6692
- Effective exchange rate index	Dec. 1993=100				
	150.7	301.6	331.8	349.4	540.7
Reserve assets	Mio EURO				
- Reserve assets (including gold)	525	460	596	698	680
- Reserve assets (excluding gold)	447	386	523	633	619
External trade	Mio EURO				
Imports	1043	1390	1826	2399	2847
Exports	832	998	1136	1473	1615
Balance	-211	-392	-690	-926	-1232
Terms of trade	corresponding period of the previous year = 100				
	:	:	:	:	:
	as % of total				
Imports with EU-15 (EU-12 in 1994)	24.9	49.9	49.2	53.2	55.3
Exports with EU-15 (EU-12 in 1994)	27.9	44.0	44.7	48.9	56.6
Demography	per 1000 of population				
Natural growth rate	-6.9	-6.9	-5.8	-6.0	-6.4
Net migration rate	-7.4	-4.2	-2.9	-2.7	-1.3
	per 1000 live-births				
Infant mortality rate	15.7	18.8	15.9	15.3	15.0
	at birth				
Life expectancy : Males	60.7	60.8	63.9	64.2	63.8
Females	72.9	73.1	75.6	75.9	74.9

	1994	1995	1996	1997	1998
Labour market (ILO methodology)	<b>% of labour force</b>				
<b>Economic activity rate</b>	:	67.6	59.8	59.7	:
<b>Unemployment rate, total</b>	:	18.9	18.3	14.4	13.8
<b>Unemployment rate of persons &lt; 25 years</b>	:	30.1	29.0	24.9	25.5
<b>Unemployment rate of persons &gt;= 25 years</b>	:	17.0	16.6	12.9	12.1
<b>Average employment by NACE branches (LFS)</b>	<b>in % of total</b>				
- Agriculture and forestry	:	17.4	17.9	20.6	18.8
- Industry (excluding construction)	:	23.1	20.8	21.4	20.7
- Construction	:	5.0	5.9	5.4	5.5
- Services	:	54.6	55.4	52.6	55.0
Infrastructure	<b>Km per 1000 Km<sup>2</sup></b>				
<b>Railway network</b>	<b>37</b>	<b>37</b>	<b>37</b>	<b>37</b>	<b>37</b>
	<b>Km</b>				
<b>Length of motorways</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Industry and agriculture	<b>previous year = 100</b>				
<b>Industrial production volume indices</b>	90.1	96.3	105.5	113.8	103.1
<b>Gross agricultural production volume indices</b>	80	93	94	100.2	91
Standard of living	<b>per 1000 inhabitants</b>				
<b>Number of cars</b>	:	133	153	176	198
<b>Telephone subscribers</b>	277	289	302	314	336
<b>Number of Internet connections</b>	:	:	:	:	3.40 <sup>11</sup>

: not available

<sup>11</sup> Source: United Nations.

## Methodological Notes

### National account

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

### Inflation rate

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

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

### Financial indicators

#### Sources

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

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

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

### Methodology

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

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

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

Monetary aggregates are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data.

Interest rates Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates Where available, the EURO exchange rates are those officially notified. The effective exchange rate index is weighted by major trading partners, with a base year of December 1993.

### **External trade**

Imports and exports (current prices). The recording is based upon the special trade system, according to which; external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as 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 incurring in course of transport up to the customs frontier charges to the seller. The term CIF means that the purchaser discharges 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 rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is:  $\text{population (X+1)} - \text{population (X)} - \text{Deaths (X)} + \text{Births (X)}$ . This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

### **Labour force**

Economic activity rate (ILO Methodology). according to the Labour Force Sample 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 (in the sense of 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, and members of co-operatives or contributing family workers. Members of armed forces and women on child-care leave are included.
- The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:
  - (i) have no work,
  - (ii) are actively seeking a job and,
  - (iii) are ready to take up a job within a fortnight.

Data from the LFS of November 1995 monitors the population aged 15-69. Data from the LFS of May and November 1996 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 included. Data for 1995, 1996 and 1997 refer to November 1995, November 1996 and November 1997.

Unemployment rate (by ILO methodology ).Data from November 1995 LFS monitors the population aged 15-69. Data from May and November 1996 LFS monitors the population aged 15 years and over. LFS excludes persons on compulsory military service and persons living in non-private households. Employees on maternity leave and child care until 3 months are included. Data for 1995, 1996 and 1997 refer to November 1995, November 1996 and November 1997.

Average employment by NACE branches. Enterprises and other organisations under all kinds of ownership. The data cover all budgetary organisations. Persons in compulsory military service and employees on childcare 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.

Telephone subscribers. Number of telephones switched on to the public telecommunication network including extensions.

## Sources

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

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