



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 9.10.2002
SEC(2002) 1405

2002

REGULAR REPORT

ON

LATVIA'S

PROGRESS TOWARDS ACCESSION

{COM(2002) 700 final}

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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 with preparations for membership, and that it would submit its first Report at the end of 1998.

The Luxembourg European Council decided that:

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

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second in October 1999, a third in November 2000, and a fourth in November 2001.

In its 2001 Enlargement Strategy Paper, which accompanied the 2001 Regular Reports, the Commission indicated that, given the pace of negotiations and the progress made so far, the Commission should be able to make recommendations on those candidate countries ready for accession on the basis of its 2002 Regular Reports. At its meeting in Seville in June 2002, the European Council concluded that “in order to enable the European Council to be held in the coming autumn to decide which will be the candidate countries with which negotiations can be concluded at the end of 2002, [...] the Commission will have to draft appropriate recommendations in the light of the Regular Reports.” The Commission has prepared this fifth series of Regular Reports with a view to the Brussels European Council in autumn 2002.

The structure followed for this Regular Report is largely the same as that used for the 2000 and 2001 Regular Reports. In line with previous Regular Reports, the present Report:

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

- addresses the question of Latvia's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. In this part, special attention is paid to nuclear safety standards, which were emphasised by the Cologne and Helsinki European Councils. This part includes not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*. The European Council stressed the importance of this latter aspect at its meeting in Madrid in 1995 and on a number of subsequent occasions, most recently at Seville in June 2002. At Madrid, the European Council stressed that the candidate countries must adjust their administrative structures, so as to create the conditions for the harmonious integration of these States. The Seville European Council also stressed how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level.

This Report takes into consideration progress since the 2001 Regular Report. It covers the period up to 15 September 2002. In some particular cases, however, measures taken after that date are mentioned. It looks at whether planned reforms referred to in the 2001 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides a global assessment of the overall situation for each of the aspects under consideration, setting out for each of them the main steps still to be taken by Latvia in preparing for accession.

Furthermore, in view of the fact that the 2002 Regular Reports will provide the basis on which the Commission will formulate its recommendations as to which countries are ready to conclude negotiations, this Report includes an evaluation of Latvia's track record since the 1997 Opinion. As regards the economic criteria, the report also provides a dynamic, forward-looking evaluation of Latvia's economic performance.

For each of the negotiating chapters, this Report provides a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted. The commitments made by each country reflect the result of the accession negotiations, and, in accordance with the principle of differentiation underlying the negotiation process, may differ between countries. Where negotiating countries have committed themselves to completing specific measures by the time of accession, the Commission assesses the relevant preparatory processes. For chapters on which the accession negotiations continue, and final commitments remain to be defined, an indicative assessment is given of the state of implementation of the commitments that have been made to date.

The Report contains a separate section examining the extent to which Latvia has addressed the Accession Partnership priorities. This section also assesses the progress Latvia has made in implementing the measures set out in the Action Plan for strengthening administrative and judicial capacity that the Commission developed with each negotiating country in the spring of 2002.

As has been the case in previous Reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various

stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment of each country in terms of their concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The information each of the candidate countries has provided within the framework of the Association Agreement and the negotiations, the National Programmes for the Adoption of the *Acquis* where they are available, as well as the process of developing the Action Plans, and various peer reviews that have taken place to assess candidate countries' administrative capacity in a number of areas, have served as additional sources. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the international financial institutions, as well as those of non-governmental organisations.

b) Relations between the European Union and Latvia

Recent developments under the Europe Agreement, including bilateral trade

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

The fifth meeting of the Association Council and the fifth Association Committee were held in February and June 2002 respectively. The system of sub-committees continues to function as a forum for technical discussion.

Since the Commission's last Regular Report, the Joint Parliamentary Committee, comprising representatives of the Latvian and European Parliaments, met in June 2002. Co-operation with the Committee of the Regions has continued at a working level.

Latvia's trade with the EC has continued to increase, both in absolute terms and in its rate of growth. Latvia's exports to the EC accounted for 61 % (€ 2 billion) of total 2001 exports, while its imports from the EC amounted to 53 % (€ 2.4 billion) of total imports in the same year. In 2001 Latvia's exports to the EC increased by 3 % by comparison with the previous year and imports from the EC increased by 19 %. Latvia's export to the EC is heavily dominated by wood, followed by textiles, minerals, machinery and electrical equipment, while its most important imports from the Union are machinery, electrical and transport equipment, and agricultural goods.

As a consequence of the agreement which emerged from the first round of trade negotiations in the agriculture sector (adopted on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement), approximately 94% of EC agricultural imports from Latvia and 74% of EC agricultural exports to Latvia are duty-free or benefit from preferential reduced duty rates (average trade figures for 1998-2000).

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

Negotiations on a further round of liberalisation, covering more sensitive sectors, began at the end of 2001 and were concluded in April 2002. The result of this further round, applicable as of July 2002, enhances the existing agricultural trade preferences between the parties and promotes the abolition or reduction of import duties either within tariff quotas or for unlimited amounts, in sectors such as cereals, dairy products, beef and sheep meat. This further agreement also includes a commitment by the parties to eliminate export refunds in certain sectors.

In October 2001, the Association Council took a decision on improvements in the trade with processed agricultural products in Protocol 2 to the Europe Agreement. Both parties agreed on the application of a more favourable trade regime for processed agricultural products. Tariff quotas on export and import of processed agricultural products between Latvia and the EC became effective from December 2001.

With regard to further liberalisation of trade in fish and fisheries products, technical negotiations on reciprocal tariff concessions have been concluded between the European Community and the Republic of Latvia.

In March 2002, in response to protectionist measures taken by the US, which greatly restricted access to their market and created the risk of considerable trade diversion, the EU initiated provisional safeguard measures, with erga omnes effect, on imports of certain steel products. The measures were partly confirmed in September 2002.

The Protocol to the European Agreement on Conformity Assessment and Acceptance of Industrial Products (PECA) and four sector annexes to the Protocol were signed in May 2002 in Brussels. New sectoral legislation on chemicals, cosmetics, medical equipment, explosives, food safety, and other areas was adopted in 2001.

Accession Partnership

A revised Accession Partnership was adopted in January 2002. Its implementation is reviewed in Part D of this report.

Action Plan for reinforcing administrative and judicial capacity

As announced in the Commission's 2001 Enlargement Strategy, in spring 2002 the Commission and Latvia jointly developed an Action Plan to strengthen Latvia's administrative and judicial capacity, on which a common understanding was reached in April. The revised Accession Partnership adopted in January has served as the point of departure for this exercise.

The purpose of this Action Plan is to identify jointly the next steps required for Latvia to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing Latvia with targeted assistance in areas that are essential for the functioning of an enlarged Union. As such, the Action Plan is a key tool for meeting the common objective of the EU and Latvia, i.e. to ensure that Latvia's preparations for accession take place as effectively as possible within the planned timeframe.

The implementation of the Action Plan is reviewed in Part D of this Report.

National Programme for the Adoption of the Acquis

In April 2002 - check with Latvia, Latvia adopted a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlined its strategy for accession including how to achieve the priorities set out in the revised Accession Partnership.

Community Assistance

Three **pre-accession instruments** have been financed by the European Community to assist the applicant countries of Central and Eastern Europe with their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. The support provided by these programmes is focused on the Accession Partnership priorities, which are intended to help the candidate countries meet the criteria for membership.

For the years 2000-2002, total financial assistance to Latvia amounts to around €35 million annually from Phare, €22.2 million from SAPARD, and between €36.4 and €57.2 million from ISPA.

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

Phare provides the applicant countries of Central and Eastern Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis*, and investment in economic and social cohesion. This support comprises co-financing for technical assistance, “twinning” and investment-support projects, to help these countries with their efforts to adopt the *acquis* and strengthen the institutions necessary for implementing and enforcing the *acquis*. Phare also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investment and grant schemes) with a regional or thematic focus. In the context of the Action Plans for strengthening administrative and judicial capacity, a particular emphasis is placed on the issue of institution building and associated investment intended to ensure compliance with the *acquis*. For 2002, the Commission has mobilised special financial assistance of up to €250 million to accompany negotiating countries' efforts, over and above the indicative annual allocations for each of the Phare countries, bringing total Community assistance for strengthening the administrative and judicial capacity of the negotiating countries in 2002 to around €1 billion.

The Phare programme allocated commitments of €320.3 million to Latvia during the 1992-1999 period, €34.8 million in 2000, and €36.2 million in 2001.² The **2002 Phare Programme** for Latvia consists of an allocation of € 27 million for the National

² These figures include an allocation for Cross-Border Cooperation (CBC) Programmes of € 3 million in 2000, and € 3 million in 2001.

Programme, complemented by 5 million under the Phare 2002 supplementary institution building facility. The 2002 Phare programme focuses on the following priorities:

- priority 1: Political Criteria (€3.1 million), including Promotion of the Integration of Society in Latvia and Civil Society;
- priority 2: Free Movement of Goods / Consumer Protection (€2.2 million), including Market Surveillance in the Non-Food Sector and Food Chain Surveillance;
- priority 3: Free Movement of Services (€0.8 million) including Data State Inspection;
- priority 4: Agriculture (€0.9 million), including TSE/BSE Control;
- priority 5: Statistics (€1 million), including Intra-Community Trade Statistics;
- priority 6: Social Policy and Employment (€1.8 million), including the Employment Strategy (Institution Building);
- priority 7: Telecommunications and Information Technologies (€0.5 million), including the Public Utilities Commission;
- priority 8: Regional Policy and Co-ordination of Structural Instruments (€4.5 million), including Public Finance Management and a Project Preparation Facility;
- priority 9: Environment (€1.9 million), including Environment Monitoring;
- priority 10: Co-operation in the Field of Justice and Home Affairs (€6.5 million), including Preparation for Participation in the Schengen Information System, Sea Border Surveillance and State Police;
- priority 11: Customs Union (€4.8 million), including the Customs Business Strategy and Customs Data Systems;
- priority 12: Overall Administrative Capacity (€4.2 million) including Community Programmes and Agencies, Twinning Light Facility.

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

Latvia also participates in and benefits from Phare-funded multi-country and horizontal programmes, such as TAIEX, the Small and Medium-sized Enterprises Facility, SIGMA and the nuclear safety programme.

Furthermore, Latvia participates in the following Community programmes: Leonardo da Vinci II, Socrates II, Youth, Life III, the Multi-annual Programme for Enterprises and Entrepreneurship, Culture 2000, Gender Equality, Combating Social Exclusion and the Fifth Framework on Research and Technological Development. It is also affiliated to the European Environment Agency.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in important fields such as the public

finance sector, health and safety at work, agriculture, justice and home affairs, eastern border management and statistics. In the agriculture and food control sector, know how and equipment have been supplied to veterinary services and border facilities including training in food safety, hygiene and quality matters at central and regional level.

For example, in Latvia, Phare has played a particularly important role in:

- Major support for the development of the Latvian Eastern Border Management. The facilities of 9 Latvian border-crossing-points are being upgraded to EU standards (€7.3 million) with Phare support, while the other improvements necessary are financed through the Latvian state budget.
- The development of a Latvian Integrated Border Control System (€1 million). This project implemented through a Twinning partnership, has focused on the development of an Integrated Border Management Strategy. It has facilitated a comprehensive assessment of current border security and aims to improve the effectiveness of co-operation and the implementation of joint tasks by the border agencies. All agencies involved in border surveillance have been closely involved in the project.
- Society integration, where Phare has been the most important supporter of the Latvian Language Training Programme (€5.1 million since 1996), a multi-donor programme hitherto administered by the United Nations Development Programme. The programme, now managed by the Latvian authorities, has focused on enhancing Latvian language training in minority schools, providing language training opportunities for targeted groups of adults and promoting society integration at community level by various means.

The 2000 Phare Review confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The trends introduced in 1997 have continued, with an increased role for Commission Delegations, further streamlining of procedures and increasing emphasis on raising the verifiable and quantifiable impact of Phare projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

The Review also provided for the possibility of further decentralisation of Phare management, by waiving the requirement for *ex ante* approval by the Commission Delegations for tendering and contracting. For this to be possible, strict pre-conditions covering programme management, financial control and structures regarding public finance must be met. An extended decentralised implementation system (EDIS) should be put in place for each negotiating country at the latest by the time of accession. High-Level Working Groups have been established for each country to oversee this process, along with other key procedural steps in the run-up to accession.

The Commission approved the Latvian **SAPARD** programme in October 2000. The indicative allocation for SAPARD in Latvia for 2002 is € 22.9 million, at 2002 prices (allocation 2001: € 22.6 million at 2001 prices).

The operational programme is based on the following three priorities: development of sustainable agriculture (4 measures: 54% of the EC funds); integrated rural development (2 measures: 36%); improvement of the environment (3 measures: 4%).

The Multi-annual Financing Agreement (MAFA), which sets out the rules for implementing SAPARD, is in force since July 2001. *The Annual Financing Agreement (AFA)*, which sets out the Community financial commitment to Latvia for the year 2000, is in force since May 2001.

The Annual Financing Agreement for 2001. was signed in February 2002, and entered into force in June 2002.

The following structures are responsible for the implementation of SAPARD: the National Fund, located within the Ministry of Finance, administers the SAPARD funds under the responsibility of the National Authorising Officer (NAO) and is responsible for the national accreditation of SAPARD Agency; the Managing Authority is located within the Latvian Ministry of Agriculture; the Rural Support Service (RSS) has been designated by the Latvian Government as the SAPARD agency responsible for the implementation and financial management of the programme. The agency operates from its headquarters in Riga with 9 regional offices throughout Latvia.

The Commission adopted a Decision in December 2001 provisionally conferring management authority for SAPARD, on a fully decentralised basis, to the Rural Support Service (SAPARD Agency) in Latvia. The decision includes approval of six measures covering 92% of the amount available for Latvia. Simultaneously, an initial payment on account of € 5.4 million was made to the SAPARD Euro Account in the National Fund. Up to June 2002 the SAPARD Agency has received 444 project applications from potential beneficiaries. Of these 219 have been approved, involving around € 10.4 million of public support.

A Monitoring Committee has been established by the Managing Authority and has met three times.

The **ISPA** programming framework is governed by the national strategy papers for transport and environment which the Latvian authorities finalised in 2000. In the case of transport, the emphasis is on the rehabilitation of the TINA (Transport Infrastructure Needs Assessment) Road Corridor I and the modernisation of the TINA East-West railway link. In the environmental field, the Latvian Government's priorities for ISPA financing are waste and drinking water (in the seven largest cities, as well as for the most important river basins) and waste management (closure of old landfills and opening of new ones that meet European standards).

For the years 2000 and 2001, the full (mid-range) allocation for Latvia has been committed, i.e. €94.8 million (€46.8 million in 2000 and €48 million in 2001). The allocation for 2002 will be between €38.1 million and €59.9 million.

Five environmental projects were approved in 2001, dealing with solid waste management in Ventspils (with an ISPA contribution of €3.0 million), in Liepaja (€5.1 million) and in Ziemeļvidzeme (€3.4 million), water services in the Eastern Latvian river basins (€44.6 million) and technical assistance for environmental projects (€3.4 million). Three transport projects were approved in 2001: upgrading of the Riga-Adazi section of the Via Baltica (€10.6 million), modernisation of the signalling systems on the East-West railway link (€67.5 million), and technical assistance for road projects (€0.6 million). So far in 2002, two measures have been approved: a water services project in Jurmala (€8.3 million) and the rehabilitation of the security system on the East-West railway link (€11.3 million). More projects are in preparation.

As regards the decentralisation process (EDIS) for ISPA, the Commission approved a technical assistance package at the end of 2001 (with ISPA financing of €0.7 million) to assist the Latvian authorities in their preparations.

Contracts have been signed for three projects in the transport sector, in addition to the technical assistance for EDIS. The tenders for most other ISPA 2000 projects are currently in preparation (except for the Jelgava water services project).

Twinning

One of the main challenges still facing the candidate countries is the need to strengthen their administrative and judicial capacity to implement and enforce the *acquis*. As of 1998, the European Commission began to mobilise significant human and financial resources to help them with this process, using the mechanism of twinning administrations and agencies. In 2001, the Commission strengthened this emphasis on institution building through the launch of the Action Plans for strengthening administrative and judicial capacity.

The twinning process makes the vast body of Member States' expertise available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

A total of 503 twinning projects were funded by the Community between 1998 and 2001. Between 1998 and 2000, these projects primarily targeted the main priority sectors identified in the Accession Partnerships: agriculture, the environment, public finance, justice and home affairs and preparation for the management of Structural Funds. Since 2000, other important sectors of the *acquis* have also been addressed through twinning, such as social policy, the fight against drugs, transport, and telecommunications regulation. Twinning now covers all sectors pursuant to the *acquis*.

Thanks to the strong support of the EU Member States, 103 twinning partnerships were funded by Phare 1998, involving all the candidate countries and almost all the Member States. These first-generation projects have already come to an end. Under Phare 1999 a further 123 projects are currently being implemented and the programming exercise for Phare 2000 included a further 146 twinning projects. The 2001 programming exercise includes 131 twinning projects embracing all the Phare beneficiary countries, as well as Cyprus and Malta. Under the 2002 programming exercise, 119 twinning projects have already been planned and approved for implementation. A substantial number of additional twinning projects are planned, and these should be approved and implementation launched before the end of 2002. They include twinning projects identified in the Action Plans for strengthening administrative and judicial capacity in the negotiating countries. It is estimated that around 300 twinning projects are operational throughout the candidate countries at any one time. Furthermore, the candidate countries are being offered a further way of drawing on Member States' expertise through "Twinning light", a mechanism to address carefully-circumscribed projects of limited scope which emerge during the negotiation process as requiring adaptation.

In Latvia, ten projects are currently being implemented through twinning. They include a project with partners from France to help develop the capacity required for Latvia's participation in the Structural Funds. A significant project in the area of public expenditure management, with a particular focus on external audit and procurement

matters and audit issues in public agencies is being implemented together with UK partners. A drug prevention project with a Spanish partner organisation has just started.

In addition, an agricultural project to help Latvia develop the requisite management mechanisms for the Common Agriculture Policy is being implemented with a partner from the Netherlands. Another project, run in tandem with a team from Denmark, addresses the institutional strengthening of the Tax and Customs Administration. In the field of Social Policy and Employment, a project with partners from Germany and the United Kingdom focuses on strengthening the dialogue between the two side of industry. Another project with a team from Greece and Sweden will help Latvia establish a system for asylum and migration management. The remaining twinning projects financed under the 2001 programme are being prepared and are scheduled to start soon. They include support to enhance the administrative capacity of the Latvian maritime administration. Finally, another project to fight organised crime is being prepared with partners from Germany and Sweden.

Negotiations

Since the opening of the accession negotiations, substantial discussions on the individual chapters of the *acquis* have been launched, and by June 2002, negotiations on all chapters apart from, Chapter 31 – “Other” were underway.

By the end of September 2002 the following 27 negotiation chapters had been provisionally closed: free movement of goods, freedom of movement for persons, freedom to provide services, free movement of capital, company law, competition policy, fisheries, transport policy, taxation, EMU, statistics, social policy and employment, energy, industrial policy, SMEs, science and research, education and training, telecommunications, culture and audio-visual policy, regional policy, environment, consumer and health protection, justice and home affairs, customs union, external relations, common foreign and security policy and financial control.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”³

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

“Latvia’s political institutions function properly and in conditions of stability. They respect the limits on their competencies and co-operate with each other. Elections in 1992 and 1995 were free and fair, and in each case permitted the establishment of coalition governments. The Opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judicial system and to intensify the fight against corruption need to be sustained.

There are no major problems over respect for fundamental rights. But Latvia needs to take measures to accelerate naturalisation procedures to enable the Russian-speaking non-citizens to become better integrated into Latvian society. It should also pursue its efforts to ensure general equality of treatment for non-citizens and minorities, in particular for access to professions and participation in the democratic process.

With the reservation that steps need to be taken to enable the Russian-speaking minority to become better integrated into society, Latvia demonstrates the characteristics of a democracy, with stable institutions guaranteeing the rule of law and human rights.”

In its 2001 Regular Report, the Commission found that:

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

During the last year, the government remained committed to reforming the Public Administration and the judiciary, as well as to fighting against corruption. Strategic

³ In the meantime, through the entry into force of the Treaty of Amsterdam in May 1999, the political criteria defined at Copenhagen have been essentially enshrined as a constitutional principle in the Treaty on European Union. Article 6(1) of the consolidated Treaty on European Union reads: "The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law." Accordingly, article 49 of the consolidated Treaty stipulates that "Any European State which respects the principles set out in Article 6(1) may apply to become a member of the Union." More recently, these principles have been emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

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

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

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

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

Recent developments

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

On 5 October 2002, parliamentary elections took place. The elections were free and fair and in line with international standards and commitments on democratic elections.

1.1. Democracy and the rule of law

Latvia has achieved stability of institutions guaranteeing democracy and the rule of law. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed by the developments over the past year. This section focuses on the most significant developments since the last Regular Report.

The parliament

Over the past year, no major changes in the structure of Parliament have been reported. Parliament has been involved actively in the vital issues related to Latvia's integration that should be addressed to muster the support of citizens for EU issues. The changes already introduced in early 2001 on rules of procedure regarding EU matters have continued to function properly. Regular meetings were held between the parliamentary secretaries and the European Integration Bureau regarding European integration issues, especially the negotiation process.

In February 2002, Parliament adopted three reports on the implementation of Latvia's Strategy for Integration into the EU. At the same time the Saeima EU Information Centre (SEUIC) opened a new office and broadened its activities.

In May 2002, with a majority of more than 75%, Parliament amended the election laws, abolishing the provisions requiring citizens standing as candidates in national and local elections to be proficient in the Latvian language.

The executive

During the past year, implementation of the reform of public administration continued on the basis of the Latvian Action Plan for the implementation of the Public Administration Reform Strategy. With the adoption of the Framework Law on Public Administration and secondary legislation ensuring implementation of the Civil Service Law and the Law on Agencies, the legal framework for the reform of the public administration is in place. Preparations for enforcement of the Administrative Procedure Law have continued, and the reform of the remuneration system is under way. Further improvements have been achieved in setting up the framework for policy co-ordination and strategic planning.

The Action Plan for the implementation of the Public Administration Reform Strategy for the years 2001-06 was approved by the Government in December 2001, and a corresponding Co-ordination Council was established to monitor its implementation. The Council reports twice a year to the Government on the results achieved in implementing the Action Plan.

In June 2002, the Framework Law on Public Administration, which regulates the establishment, subordination, control, accountability and funding arrangements of public administration bodies, was adopted. It seeks to introduce the principles of good governance throughout the whole public administration, including in self-government bodies and in those institutions, which perform public administrations functions delegated by the state.

A new Law on Administrative Procedure defining administrative procedure in public institutions and courts was adopted in October 2001 and is due to enter into force in July 2003. The implementation of the Civil Service Law is in progress, and the confirmation of civil service posts and assignment of civil service status was completed in February 2002. In addition, the performance-appraisal system for civil servants was put in place and the first annual performance-appraisal round was completed in December 2001. In October 2001 the Government adopted a regulation to define the procedure for the determination of qualification grades of civil servants, which will also constitute the basis for the new pay scale.

As regards the development of a unified pay system, the ongoing evaluation of the qualification grades will be decisive in determining the necessary financial resources to be allocated to the state budget in 2003. Adequate information on actual needs and job descriptions in the administration as well as details of category scales and corresponding financial costs are essential inputs for legislation to establish the new system.

Latvia has made good progress since the last Regular Report regarding implementation of the Law on Agencies. Criteria for the establishment of public agencies were set by the Government and around 150 enterprises and non-profit organisations have been analysed. So far a list has been adopted of 25 agencies to be restructured as state agencies by the end of the year. In addition, a number of regulations have been adopted defining the operational conditions of public agencies, including state responsibility for public agencies' liabilities, the obligation to establish internal audit units and the methodology for setting fees for services provided by public agencies.

During the reporting period, the Government has adopted a number of guidelines and rules to improve policy planning, involve society, strengthen the link between policy planning and budgeting, speed up the decision-making process and implement government policies.

Since the last Regular Report, 7 753 civil servants have attended training courses at the Latvian School of Public Administration. Training priorities included EU policies, administrative procedures, legal drafting, prevention of corruption, project management, internal audit, strategic management, personnel management and quality management.

Latvia has continued to address the remaining reform issues, and the legislative and administrative framework will be quite comprehensive once the Civil Service Law and the Framework Law on Public Administration are fully implemented. As the importance of a professional and stable civil service is widely recognised, it is now important to ensure minimum staffing levels, training, and adequate financial resources, including the completion of a uniform civil service pay system, at all levels of the public administration, with a view to strengthening the capacity to implement the *acquis*.

The judicial system

Since the last Regular Report, limited progress has been made on the reform of the judicial system.

The need for the reform of the judiciary has been recognised at the highest political level, and some steps have been taken to strengthen the effectiveness and independence of the judicial system mainly on the basis of the Judicial System Development Programme for the years 2001-2006. Efforts need to be stepped up to ensure continued and effective implementation of the programme.

The Latvian judicial system is composed of three tiers: district (city) courts, regional courts and the Supreme Court. In addition, there is a Constitutional Court, which may be addressed directly by citizens in cases of violation of fundamental rights. In Latvia, judges are nominated by the Ministry of Justice and confirmed by Parliament. Their independence is enshrined in the Constitution. The Ministry of Justice determines the number of Judges and administers the budgetary resources of the Judiciary. It supervises the organisation of activities at regional and district courts.

The last Regular Report mentioned three pending pieces of legislation: the Law on Sworn Court Bailiffs, the new Law on Criminal Procedures and the amendments to the Law on Judicial Power, as being essential for improving the functioning of the judiciary. So far, none of these laws has been adopted.

Despite international support, including Community assistance, the proposed new Law on Criminal Procedures, which would simplify and modernise the criminal procedure including court proceedings, reduce the backlog of court cases, speed up the consideration of juvenile cases, and extend the use of alternative penalties, is still at the drafting stage. This is regrettable.

Pending the adoption of the proposed new Law on Criminal Procedures, a number of other measures are being implemented to achieve the above-mentioned aims, in particular through relevant amendments to the existing Criminal Procedure Code. Amendments have been made in order to provide for an even case distribution among courts. Priority is now also given to the expeditious consideration of juvenile cases. In addition, other amendments to the Code aimed at simplifying and modernising the criminal procedure and at aligning legislation with EU requirements, including those on extradition, transfer of persons and recognition of decisions, were adopted in June 2002.

Amendments to the Law on Judicial Power, aimed at increasing the efficiency of court proceedings, by allowing judges to consider several cases at the same time, still remain to be adopted. In addition, in order to simplify court proceedings further, amendments to the Civil Procedure Law also need to be introduced.

The Law on Sworn Court Bailiffs, which has been pending for several years, should be adopted without delay. It aims at establishing an effective mechanism for enforcing court decisions, and at determining the rights and obligations of sworn bailiffs. It is thus essential in establishing the grounds for better co-ordination between court bailiffs and the court system.

The issue of the independence and efficiency of the judicial system, including the establishment of an independent court administration, still needs to be addressed. Furthermore, other issues such as the absence of well defined criteria and transparent methods for selecting judicial apprentices and appointees, and the Ministry of Justice's influence over career paths, also need to be tackled.

As a measure to address the issue of judges' remuneration, which remains comparatively low, judges and court staff are to benefit from a special scheme in addition to the general remuneration reform of the public administration. In January 2002, amendments to the Law on Judicial Power entered into force, which introduce the same social guarantees and benefits for judges as for civil servants. However, while a policy document on the Remuneration of Judges still needs to be adopted, its financial implications have been included in the list of budget priorities for 2003. In the meantime, concerns over perceived corruption among the judiciary remain. While the budget available for the judicial system remains largely insufficient, a limited increase was made in the budget of the Ministry of Justice for 2002, which was increased to LVL 28 551 258 (€ 50 984 871), compared with LVL 25 845 085 (€ 46 234 499) in 2001. In addition, the number of posts at the Ministry of Justice was increased from 175 in 2001 to 203 in 2002. The number of judges' posts remained unchanged at 333. In total, eighteen posts were vacant at the time of writing.

In the absence of decisive new legislative measures to reform the judicial system, the number of pending court cases rose even further during 2001. At the beginning of July 2002, there was still a total of 5 062 criminal court cases and 22 829 civil cases pending, compared with 5 396 and 22 371 in 2001. Since the bulk of the backlog is in Riga, 350 cases were transferred from Riga district court to other courts in Latvia. The increasing backlog is pre-occupying, and needs urgently to be addressed.

As mentioned in previous Reports, lengthy pre-trial detention, a related issue stemming from the backlog of cases, has continued to pose a serious problem. While fundamental measures to address the problem are still pending, and the length of pre-trial detention is not always in conformity with international standards, initial progress has been made in speeding up the review of juvenile cases (*see also below, section 'Civil and Political Rights'*). Decisive further measures are needed to further improve this situation.

More frequent use is being made of alternative penalties. While in 2000 4.7% of convicted offenders were sentenced to community service, the figure rose to 8% in 2001. The establishment of a probation service has, however, been postponed until 2003, due to a lack of funding for implementing such a system.

As regards training, the implementation of a training policy for judges and other legal professions has continued mainly through the Judicial Training Centre, which has offered training measures on national, international and EC law and on human rights. All judges of regional and district courts participated in training seminars at the Centre at least once in 2001. A series of seminars on European law, human rights, corruption, economic crimes, narcotic and toxic substances and intellectual property rights has been organised, and there is an ongoing project to modernise university law studies. Priority should be now be given to providing training for court managers, other court staff, prosecutors and bailiffs.

In 2002, the allocation to the Judicial Training Centre from the state budget was increased to LVL 60 000 (€ 107 143), from LVL 40 000 (€ 71 556) in 2001. However, the training of judges and other legal professions, especially in EC law and human rights issues, continues to depend largely on bilateral support and international donors. In order to address the generally low level of qualification in these fields and to increase the capacity to enforce the *acquis* upon accession, training needs to be intensified and adequate funding from the state budget secured.

The modernisation of courts continued by upgrading the infrastructure of court buildings and by setting up a unified information network. The reconstruction of Daugavpils Regional Court was completed by July and work continued at the Riga Regional Court. The renovation of Riga District Court, where there is the largest backlog of court cases, will not be finished before the end of 2002. The computerisation of courts has continued, and a computer-based civil case management system is due to be operational in early 2003.

There is a need to improve citizens' access to justice (*see below under Civil and political rights*). The existing Criminal Procedure Code provides for a system of free legal aid in criminal cases, whereby the Ministry of Justice covers the costs from the budget allocated for this purpose. The Civil Procedure Law provides statutory legal aid and relief of litigation expenses. However, contrary to the principles generally applied to legal aid, at present, defendants have to pay back legal aid when a case is lost. Generally, the

implementation of existing provisions on criminal and civil matters poses certain problems. Next to continued reforms of the court administration, the adoption of the new Law on Criminal Procedure as well as new legislation on civil matters should also address this issue.

Overall, while most of the deficiencies of the judicial system have been identified, only part of them have been addressed. Efforts in this field need to be multiplied in order to ensure a thorough systemic reform, based on political support to modernise the judiciary and sufficient funding. The legislative framework still remains to be completed and the increasing backlog of court cases should be reduced. Further significant efforts to strengthen the *de facto* independence, efficiency and quality of the judiciary are needed. The upgrading of the infrastructure of courts needs to be completed.

Anti-corruption measures

Surveys indicate that corruption remains a source of concern in Latvia. The last Regular Report stated that further sustained efforts were still needed to complete the legal framework and to ensure effectiveness in the fight against corruption, and added that the perceived level of corruption in Latvia continued to be relatively high, to the detriment of public trust in the public administration, the judiciary and private investors' confidence. Since then the Government has remained committed to preventing and fighting corruption and has taken further steps to deal with the problem. The legislative framework has been improved, foreseeing strengthening of the institutional set-up, and both public awareness and the involvement of civil society are on the increase. However, a number of critical legislative and administrative measures still need to be taken.

The Corruption Prevention Programme of 2001 has been largely implemented and important pieces of legislation concerning the fight against corruption have been passed. The Law on the Anti-Corruption Bureau entered into force in May 2002. It gives the Bureau, which is to start its operations before the end of 2002, the power to initiate criminal proceedings and to conduct investigative and operational activities. The Bureau is also responsible for checking officials' income declarations and auditing party finances. The adoption of the law and the appointment of the Head of the Bureau by the Government are positive steps. It is now of vital importance that, following confirmation of this appointment by Parliament, the Bureau swiftly become operational.

In April 2002, Parliament passed the Law on the Prevention of Conflict of Interest in Activities of Public Officials replacing the existing Law on Corruption Prevention. The law, which entered into force in May 2002, specifies in more detail the circle of public officials who are subject to regulations on conflict of interest and designates the newly established Anti-Corruption Bureau as the institution responsible for implementing the law. The law lays down restrictions on assuming outside employment, accepting gifts and donations, etc. Since June 2002 public officials have not been allowed to hold more than one position in state institutions. This has led to resignation of officials from the board of public companies.

An important step in the fight against corruption was the adoption of amendments to the Law on the Financing of Political Organisations in June 2002. Parties are now required to publish the names of donors together with the amount and date of donations on the Internet before and after the elections. The maximum allowable donations from a single donor within a calendar year has been reduced from LVL 25 000 (€ 41 736) to

LVL 10 000 (€ 17 857). Parties are no longer allowed to accept donations from companies in which the state or a municipality has holdings. The law also prohibits loans and provision of free services to political parties.

The adoption of the law represents a positive step in the promotion of transparency in party financing. However, the enforcement of the law will require the Anti-Corruption Bureau to build up quickly its capacity to effectively check the financial declarations submitted by the parties. As the checking of financial declarations will pose major administrative challenges for the Bureau, adequate financial and human resources will have to be provided.

Several other pieces of legislation were adopted which also affect the fight against corruption. In January 2002, the Law on Procurement for Government and Municipal Needs entered into force and the Public Procurement Surveillance Bureau was established in order to enforce transparency, surveillance and review mechanisms in the public procurement procedure. In April 2002, amendments to the criminal law adopted by Parliament introduced provisions including criminal liability for trading in influence and offering bribes, and defined a public official. The amendments also aim to complete the legal framework for the implementation of the Council of Europe Criminal Law Convention on Corruption. Further training, particular for public officials in charge of public procurement, should be provided.

In order to increase the efficiency of Latvia's anti-corruption policy further and to ensure better co-ordination with the policies for fighting other forms of crime, the Corruption Prevention Council has been merged with the Crime Prevention Council to form the Corruption and Crime Prevention Council. The new Council and its secretariat are to co-ordinate the activities of the institutions involved in preventing and combating corruption at the highest political level. It is chaired by the Prime Minister. The budget of the Council's secretariat has, however, been significantly reduced, and it remains unclear how the functioning of the secretariat will be financed.

However, despite the recent steps taken, the institutional set-up continues to be scattered among a number of institutions which are to a greater or lesser extent directly involved in the fight against corruption, including the Anti-Corruption Bureau. Their competencies continue to overlap and the lack of co-ordination continues to significantly weaken the effectiveness of the fight against corruption in Latvia. The establishment of the new Anti-Corruption Bureau could offer a chance to overcome these shortcomings, thanks to its institutional independence and investigative power, provided it can be given a clearly co-ordinating role and establish a clear corruption prevention strategy. Besides the question of competencies, the success of the Bureau largely depends on the political will to fight high-level corruption and state capture and to supply the Bureau with sufficient funding and human resources.

During the reporting period, particular emphasis has been put on the fight against corruption in the customs and police services. The Customs Officials' Code of Ethics and Conduct was approved in October 2001, and it is now important for the State Revenue Service to implement the Code and the Action Plan for the prevention of corruption.

Since 2001, territorial customs units have performed regular high corruption-risk analyses, opinion polls have been carried out, hot-lines have been put in place and 15 internal audits have been carried out leading to a total of 161 disciplinary measures and

four dismissals in 2001. In the police sphere, a series of activities have taken place, including better control of document flow, rotation of road-traffic police officers, an internal audit of the State Police, and selective inspections of the territorial police boards. In 2001, 15 police officers were detained for delinquent behaviour and seven were sentenced. In 2001 a total of 56 cases of abuse of official status, 53 cases of “passive bribery” (bribe-taking) and 12 cases of “active bribery” (bribe-giving) were detected in state institutions. Five persons were sentenced for the abuse of official status, 11 for passive bribery and six for active bribery.

The Civil Service Code of Ethics, which came into force in January 2001, continues to be applied, and training on ethics in the civil service has been intensified at the Latvian School of Public Administration.

In addition, an active seminar policy was pursued in co-operation with international donors to raise public awareness and involvement in corruption prevention. Seminars have been held for judges, prosecutors, policemen and representatives of the mass media. At the Latvian School of Public Administration 276 civil servants attended training courses on conflict of interest in 2001 and 264 during the first five months of 2002. In 2001, 92 civil servants were trained in corruption prevention (by May 463 individuals had attended these courses).

Latvia ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime in 1998 and the Council of Europe Criminal Law Convention on Corruption in February 2001. The necessary changes to criminal law were adopted by Parliament in April 2002. Latvia is involved, jointly with Estonia and Lithuania, in the Baltic Anti-Corruption Initiative, with the support of the OECD Secretariat. The Government has applied for accession to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Council of Europe Civil Law Convention on Corruption has not yet been signed (*see Chapter 24 – Co-operation in the field of Justice and Home Affairs*).

Latvia joined the Council of Europe Group of States Against Corruption (GRECO) in June 2000. As a member of GRECO, Latvia received a GRECO evaluation mission in December 2001. According to the evaluation report that was made public in March 2002, the scale of the problem of corruption in Latvia is difficult to quantify, but public perception is that corruption is a worrying phenomenon that affects the activities of some public institutions in Latvia such as customs, traffic police and judicial authorities. The report added that the seriousness of the problem appeared to be recognised at the highest political level and that the Government seemed to be more committed to further improving the legal framework and its implementation, but that the real challenge was changing attitudes and behaviour. The report noted that Latvian society’s mentality vis-à-vis corruption was changing and that people increasingly reported to the police or other law-enforcement agencies cases of suspected corruption, but that dissatisfaction with the rate of progress of reform had bred suspicion and resentment. The report indicated that this raised two real challenges for institutions combating corruption: to gain the trust of the public and demonstrate effectiveness by producing results. It added that there are at present in Latvia a range of institutions that contribute to the fight against corruption, and that their efforts are fragmented, with an obvious lack of direction and co-ordination. In conclusion, GRECO addressed fifteen specific recommendations to Latvia, which it is strongly encouraged to follow up.

Overall, since the last Regular Report, Latvia has made further progress in the fight against corruption. The legislative framework has been improved, foreseeing the strengthening of the institutional set-up, and both public awareness and the involvement of civil society are on the increase. However, further efforts are needed to clarify and consolidate the institutional set-up and to provide the new Anti-Corruption Bureau with the necessary means to effectively ensure its independence. The Latvian Government should remain strongly committed to further combating high-level political corruption and state capture. The effective implementation of the existing anti-corruption legislation will be vital for overcoming the public's continuing mistrust of the judiciary and the public administration and for gaining the confidence of private investors.

1.2. Human rights and the protection of minorities

Latvia continues to respect human rights and freedoms. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed by developments over the past year. This section focuses on the most significant developments since the last Regular Report.

Latvia has acceded to most of the major international human rights instruments. The Council of Europe Framework Convention for the Protection of National Minorities has, however, not yet been ratified.

In April 2002, Latvia signed Protocol No 13 to the Convention for the Protection of Human Rights and Fundamental Freedoms, concerning the abolition of the death penalty in all circumstances. In January 2002, Latvia ratified the European Social Charter.

Latvia has signed but not ratified the Additional Protocol No 12 to the European Convention on Human Rights prohibiting discrimination on any grounds. No significant new developments regarding the transposition and implementation of the anti-discrimination *acquis* can be reported (*see Chapter 13 – Social policy and employment*).

On 31 December 2001, the OSCE mission to Latvia was closed, following the Chairman-in-Office's statement that its tasks under the missions' guidelines concerning citizenship, language (in particular, language provisions in the election law), education, the integration programme and the ombudsman institution had been completed, were being completed or could be achieved by other more appropriate instruments.

The institutional set-up of the National Human Rights Office (NHRO) remains largely unchanged. The working group established in 2001 with the aim of studying different options, including the Office's conversion to an ombudsman institution with a broader mandate, has provided recommendations, which have been partly implemented. Some improvements of the institutional structure took place, but duplication of tasks between state human rights bodies seems to persist, especially between the NHRO and the State Children's Rights Protection Centre.

Civil and political rights

There have been positive developments since the previous Regular Report regarding legislation on trafficking in human beings and asylum. There have also been some improvements in prison conditions. Some limited steps have been taken to address the

situation regarding pre-trial detention, but the situation on the issue remains a source of serious concern.

Since July 2001, when individuals were granted the right to apply to the Constitutional Court regarding violations of their basic rights, 16 cases out of 575 complaints received have been deemed admissible and the Court has pronounced 12 judgements.

Latvia has made progress in adopting, in April 2002, amendments to the criminal law regarding *trafficking in human beings* and organised criminal groups which bring Latvia's anti-trafficking legislation into line with the UN Protocol to 'prevent, suppress and punish trafficking in persons, especially women and children'. Latvia remains a country of origin. It co-operates with Interpol and various countries to prevent such crimes.

While some legislation has been put in place, the length of *pre-trial detention* remains a very serious concern. In April 2002, about 44% of inmates in Latvian prisons were pre-trial detainees (no significant change compared with 2001). However, in most recent months figures have slightly gone down as a result of amendments to the existing Criminal Procedure Code. Concerns have been expressed regarding cases of excessive use of force by the police against people in custody.

As reported above, as a result of measures taken to speed up the review of juvenile cases, in April 2002, juveniles accounted for 63% of the total number of persons in pre-trial detention, compared with 70% in mid 2001. This remains very high. The length of pre-trial detention for juveniles is not always in conformity with international standards. A working group established on the initiative of the State President has drawn up a draft Law on Education and Correctional Measures for Juveniles in order to improve the situation.

Several regulations have been adopted in order to improve *prison conditions*, covering such issues as internal rules on imprisonment, payment for work by prisoners, financial aid to released prisoners, medical aid, the provision of nourishment and other daily necessities, and facilities for children to stay with their imprisoned mothers.

Since the last Regular Report, progress has been made towards renovating detention facilities under the Public Investment Programme. Reconstruction of Liepaja prison, as well as parts of the central prison and the Matisa prison has been completed. Further reconstruction work is in progress in Olaine prison (including the building of a tuberculosis hospital), parts of the central prison and Matisa prison, and in Jelgava prison. Nevertheless, the situation in prisons continues to be reported as critical in terms of health and sanitary conditions, overcrowding and occupational measures. A positive development is the fact that the number of tuberculosis cases in prisons has further decreased. Furthermore, several social rehabilitation programmes are being implemented in co-operation with NGOs, including a special programme for juveniles.

Some structural problems still remain unresolved. As mentioned in the 2001 Regular Report, seven detention centres and prisons (out of a total of 15 institutions) continue to be guarded by a special regiment of the Ministry of the Interior. In October 2001 the Cabinet of Ministers decided to transfer three more prisons to professional guards in 2002 and to complete the reform by the end of 2003.

Regarding *legal aid*, further improvements of legislation and practice are necessary. As set out above, the Criminal Procedure Code provides for a system of free legal aid in criminal cases (which is mandatory in the case of minors, the disabled, persons not knowing the language, and for all pre-trial investigations). The Civil Procedure Law also provides statutory legal aid. However, there are difficulties with the implementation of this legislation, exacerbated by a general shortage of lawyers, lack of sufficient budget, as well as a lack of knowledge and experience. Further efforts are necessary to bring the existing legislation fully in line with existing international standards in this field. In this context, the adoption of the new Law on Criminal Procedure as well as of legislation regarding civil matters is of particular importance and should take place without delay.

Latvia has made particular progress on *asylum*, with the adoption of a law on asylum in March 2002 which covers general procedures for refugee asylum seekers, guarantees with regard to relevant appeal procedures, and the competencies and responsibilities of the various parties concerned. While this law is generally perceived as an important step towards aligning the legislation, particular attention will now have to be paid to adequate implementation, including the application of accelerated procedures, the 'third country concept' and the minimum guarantees for appeal. No concrete progress to improve living conditions at Olaine Detention Centre can be reported.

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

Economic, social and cultural rights

Since the last Regular Report, the main positive developments in this area have been the ratification of the European Social Charter and the entry into force of the new labour legislation.

With regard to *equal opportunities*, the Government adopted in March 2002 an Action Plan, which provides for a National Gender Equality Strategy 2003-07. In 2001, one case involving the principle of gender equality was brought to court. The claimant sued the prison administration for refusing to employ her as a prison guard because she was a woman. The Court confirmed that there had been gender discrimination. The new Labour Law, which entered into force in June 2002, is a major step forward and should contribute to addressing the discrimination which women continue to face in the workplace in terms of recruitment and pay (*see Chapter 13 – Social policy and employment*). There were 21 female members of Parliament (out of a total of 100) and 2 women in the Government.

Regarding *children's rights*, Latvia ratified the European Convention on the Recognition and Enforcement of Decisions concerning Custody of Children and on Restoration of Custody of Children in April 2002.

Improvements are needed with regard to the treatment of *disabled and mentally ill persons*. Further legislation to protect the rights of the mentally ill has to be adopted. Recourse to proper proceedings in case of detention of persons and prevention of degrading treatment of those in care need to be systematically ensured. Despite gradual improvement, the conditions in some facilities, including the Riga main psychiatric hospital, and the lack of state support for medicines required by some patients remain a source of serious concern.

Regarding *the role of trade unions*, all the essential legislative preconditions for the formation and functioning of trade unions exist. However, trade unions continue to struggle with distrust from the legacy of the past.

In January 2002, the Latvian Parliament ratified the *European Social Charter*. Latvia has selected ten Articles in Part II of the Charter as binding, guaranteeing the right to work, the right of organisation, the right of collective bargaining, the right to protection of employed women, the right to vocational guidance, the right to health protection, the right to social and medical assistance, the right to benefit from social welfare services, the right of the family to social, legal and economic protection, and the right of mothers and children to social and economic protection. The Charter entered into force in March 2002.

Minority rights and the protection of minorities

In March 2001, the Latvian Parliament rejected ratification of the Council of Europe Framework Convention for the Protection of National Minorities. The Framework Convention has thus still not been ratified. Latvia is urged to ratify it.

Since the last Regular Report, positive developments have included abolition of language restrictions in the election law, further facilitation of naturalisation with a view to increasing the rate of naturalisation, the inception of the Society Integration Foundation and an increase in its funding, and extended language training. However, the fact that funding for the Naturalisation Board has been reduced in 2002 is a cause for concern.

The Naturalisation procedure

Of Latvia's total population of about 2.34 million, around 523 100 (22.4%) were non-citizens in 2002. The number of non-citizens is slowly decreasing (from 24.6% in 2000 to 22.4% in 2002).

By June 2002, more than 54 000 naturalisation applications had been received and 53 681 persons had obtained Latvian citizenship since the beginning of naturalisation in 1995. Altogether, 7 156 children had been granted Latvian citizenship by June 2002. In 2001, 10 637 persons obtained Latvian citizenship. In the first three months of 2002, the number of naturalisation applications increased by approximately 30% compared with the same period in 2001 (2 997 in 2002; 2 298 in 2001), but the rate is still low.

The increase in the rate of naturalisation during the first months of 2002 appears to be largely linked to the reduction in the naturalisation fee, the second stage of free language courses for persons wishing to be naturalised, and a public awareness and information campaign.

One of the most important obstacles for many potential applicants remains the lack of language proficiency. To address this problem, the Society Integration Foundation has adopted a plan for the further development of the state language training system for naturalisation candidates, indicating sources of financing from the national budget in 2003, and gradually increasing the number of places on the courses by 5 000 per year. Taking into account that the language courses offered were greatly oversubscribed, the allocation of adequate financial and human resources is of utmost importance.

At the end of 2001, an extensive campaign informing the public about citizenship issues was launched, with advertising in the mass media and regional newspapers, an Internet web site and the organisation of a citizenship day at Latvian schools. A free information hot-line on Latvian citizenship and related issues started to operate at the Naturalisation Board.

In 2001, the number of employees at the Naturalisation Board remained unchanged with an average of 170. With a view to strengthening the administrative capacity of the Naturalisation Board, all civil servants attended in-service training courses at least once in 2001. However, in a preoccupying development, the budget allocated to the Board in 2002 is significantly lower than in previous years.

As regards children whose parents are stateless or non-citizens, the number of applications for citizenship remained low. Since February 1999, when it became possible to obtain citizenship for children born in Latvia after 21 August 1991, a total of 887 had been registered as citizens by August 2002.

Latvia has continued to follow the recommendations expressed by the OSCE in the area of citizenship and naturalisation. In the period ahead, Latvia should continue and enhance activities to encourage the naturalisation process. In order to make this possible, it will be important to provide adequate funding for the Naturalisation Board so that it can properly discharge all its responsibilities.

Special passports for non-citizens

By April 2002 a total of 600 000⁴ special passports had been issued since 1997, representing virtually all eligible non-citizens. It was still possible to exchange the old Soviet passport, which had expired at the end of March 2000. Travelling to Russia is still easier with a non-citizenship passport than with a Latvian passport, as the cost and the nature of the visa differ.

Integration of minorities

Since the last Regular Report, attention has focused on the implementation of the "Integration of Society in Latvia" programme, the establishment of the Society Integration Foundation, and the implementation of language legislation. A positive development has been the repeal of language provisions in Latvian election legislation. However, a number of concerns remain.

The Society Integration Foundation, which is one of the main implementing mechanisms of the National Programme for Integration of Society in Latvia, became fully operational in October 2001.

The Latvian state provides the Society Integration Foundation with a total budget of LVL 282 000 (€ 503 571) for 2002 compared to LVL 170 000 (€ 303 571) for 2001. The Society Integration Foundation supported 21 projects last year, including 17 projects on ethnic integration and four projects on social integration. By June 2002, 64 out of 390

⁴ The total number of passports printed is higher than the current number of non-citizens, mostly due to naturalisation.

projects submitted for the first half of 2002 had been approved. Three projects have been completed to date. Training of the Foundation's staff is in progress.

In implementing the programme, there is a need to ensure the awareness, consultation and involvement of all sections of the Latvian population.

The National Programme for Latvian Language Training (1996-2006) continues as planned. The funding provided by the government remains almost unchanged at LVL 426 000 (€ 760 714), compared with LVL 428 000 (€ 765 653) in 2001. So far, 57 503 (June 2002) individuals have attended Latvian language courses free of charge under the National Programme. It will be important that this support be maintained and increased in the years to come, including by addressing the shortage of qualified teachers.

In accordance with the provisions of the Education Law of 1998, the introduction of bilingual education has continued. As of 2004, all state-funded schools will provide secondary education (from 10th grade onwards) with the Latvian state language as the only language of instruction. This will result in about 70% of subjects being taught in Latvian, and about 30% in the minority language, such as the minority language in question, geography, history of culture and literature. Transition to education in the state language in secondary schools is planned to be completed by 2007/08. Under the National Programme for Latvian Language Training, teaching materials and textbooks have been produced and training for schoolteachers has continued. Until now, 9 498 non-Latvian-speaking kindergarten teachers and 23 156 non-Latvian-speaking teachers have attended courses provided by the National Programme.

Teachers who teach in Latvian or bilingually in minority schools have continued to benefit from a bonus scheme. The government funding allocated to this scheme was further increased from LVL 600 000 (€ 1 043 333) in 2000 to LVL 718 000 (€ 1 284 436) in 2001. Further efforts to involve parents and minority schools and to train and recruit bilingual teachers will continue to be necessary. Sufficient flexibility should be provided for in the transition phase in order to ensure equal education opportunities, and efforts should be enhanced to closely involve minority representatives in any relevant decision-making processes.

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

The State Language Centre carries out the supervision and control of the implementation of the State Language Law. Currently the Centre has 21 staff members, 14 inspectors, three employees in the Consultation Department and four administrators. Since September 2001, employees of the Centre have issued six warnings and imposed 77 penalties. The most common violations have been the failure to master the state language as necessary for special professional duties and the disregard of government regulations when providing information to the public. It should be noted that the Centre has so far not checked enterprises on a systematic basis but has reacted to complaints by the population. So far, around 7 000 complaints have been received and 3 000 companies have been inspected. In February 2002, an Information and Consultation Department was created at

the State Language Centre. In co-operation with the OSCE and the Council of Europe, practical manuals for language inspectors are being drawn up and remain to be introduced.

So far no court has applied the provisions of the Administrative Violations Code imposing fines for “disrespect towards the state language”.

Some limited changes have been made regarding the rules for spelling foreign names in the Latvian language in official documents, following a decision of the Constitutional Court which concluded that the way of recording a person’s name and surname in the original in the passport excessively restricted the person’s privacy and therefore did not comply with the State Language Law. In compliance with the new passport regulations, and upon request, the person’s name in the original spelling is now to be recorded more prominently. A case related to this question was declared admissible by the European Court of Human Rights in Strasbourg. According to the European Court of Justice, every person has a right to use his/her name in its own language and according to the correct spelling in that language.

As emphasised in previous Regular Reports, it is important that the competent authorities, including the State Language Centre and the judicial system, only apply and enforce the Language Law and its implementing regulations to the extent required by legitimate public interest, having regard to the principle of proportionality, as contained in Article 2 of the Language Law, and in view of Latvia's obligations under international human rights instruments and the rights and freedoms guaranteed under the Europe Agreement.

As regards the linguistic restrictions, which still figure in legislation other than the Language Law, important developments have taken place over the past year. The Latvian State President actively supported the repeal of election legislation imposing language requirements on political candidates. In January 2002, the State President, supported by the Prime Minister, took the decision to establish a standing Commission on the State Language, composed of linguists, sociologists and philosophers and of civil servants responsible for the application of the state language policy. The main task attributed to the Commission is to draw up guidelines for Latvian language policy for the next three years and to recommend concrete measures for enhancing the status of the Latvian language.

In April 2002, the Constitution was amended with the aim of strengthening the state language in the context of planned changes to the election laws. A loyalty oath for Members of Parliament was introduced and the status of Latvian as the official procedural language in parliament and municipalities was confirmed. As the previous constitutional text already incorporated a provision on the Latvian language as the official language of the Republic of Latvia, the amendments essentially do not introduce substantive changes likely to affect the functioning of either parliament or local government.

However, the amendments to the Constitution opened the way for the repeal of election law provisions requiring candidates in national and local elections to be proficient in Latvian. As mentioned above, in May 2002 the Latvian parliament abolished these requirements and amended the election laws by a majority of more than 75% of its members.

On the other hand, recent amendments to the Law on Local Councils concerning the working language in such councils and their subordinate institutions reportedly represent a potential risk to the opportunities that exist in practice for the use of minority languages in dealings with public authorities.

As reported last year, in February 2001 the European Court of Human Rights declared admissible the case of a Latvian citizen of Russian origin who had not been allowed to stand as a candidate in the 1998 parliamentary elections due to an alleged insufficient knowledge of the official language, despite the fact that the candidate had previously presented the required language proficiency certificate. In April 2002, the Court⁵ ruled that Latvia had violated the claimant's right to free election in terms of the procedures applied by the administration and ordered Latvia to pay € 9 000 in damages. At the same time, the European Court of Human Rights also found that the purpose of the legislation on parliamentary elections barring citizens without an advanced degree of proficiency in the national language from standing for election was to ensure the proper functioning of the Latvian institutional system. It was not for the Court to determine the choice of the working language of a national parliament, as that choice was dictated by historical and political considerations and, in principle, was exclusively for the State concerned to determine.

Several other elements limit the integration of non-citizens in the economic sphere. Non-citizens continue to be excluded from some professions (lawyers, armed security guards and private detectives) on the grounds of state security.

1.3. General evaluation⁶

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

Regarding public administration reform, Latvia has continued to address the remaining reform issues and the legislative and administrative framework will be fairly comprehensive once the Civil Service Law and Public Administration Law are fully implemented. It is now important to speed up the introduction of the uniform civil service pay system and to ensure sufficient funding.

Overall, while most of the deficiencies of the judicial system have been identified, only part of them have been addressed. Efforts in this field need to be multiplied in order to ensure a thorough systemic reform, based on political support for modernising the judiciary and sufficient funding. The legislative framework still remains to be completed and the increasing backlog of court cases should be reduced. The issue of pre-trial detention requires continued attention. Further significant efforts to strengthen the *de facto* independence, efficiency and quality of the judiciary are needed. The upgrading of the infrastructure of courts needs to be completed.

⁵ Final judgement (N° 46726/99) of ECHR of 9 April 2002 concerning the case of Podkolzina v. Latvia.

⁶ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

Latvia has made further progress in the fight against corruption, which remains a cause for serious concern. The legislative framework has been improved, the institutional set-up has been strengthened and public awareness as well as the involvement of civil society are rising. However, further efforts are needed in order to complete the institutional set-up and to provide the new Anti-Corruption Bureau with the necessary means in order to achieve concrete results.

Latvia continues to respect human rights and freedoms.

Latvia has encouraged the further integration of non-citizens into Latvian society by removing language requirements in the election law, and increasing support to facilitate the naturalisation process, and through the activities of the Society Integration Foundation. The integration process needs however to be accelerated and sufficient funding made available to encourage naturalisation and language training in particular. Latvia should ensure that at all levels the implementation of the language law respects the principles of justified public interest and proportionality, Latvia's international obligations and the Europe Agreement.

2. Economic criteria

2.1. Introduction

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

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

In its 2001 Regular Report, the Commission found that:

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

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

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

In the analysis below, the Commission has followed the methodology applied in the Opinion and the previous annual Regular Reports. The analysis in this year's Regular Report takes stock of developments since the Opinion was drafted.

2.2. Summary of economic developments since 1997

Macroeconomic development has been favourable in most respects. GDP growth has been strong, steady and broad-based, underpinned by both domestic and external demand. Only in 1999 did development deviate from this trend, as the economy was hit by the Russian crisis, but the economy succeeded in recovering rapidly. However, strong private consumption and investment have led to a large current account deficit. It has, nonetheless, been covered by FDI to a large extent. In 2001, FDI fell considerably but that was due to a single transaction by a domestic enterprise and it should not be too emphasised. Despite strong domestic demand, inflation has remained moderate and stable. The general government deficit has varied somewhat over the years, with a peak in 1999. Since then, however, it has decreased every year. Recent economic developments have, by and large, confirmed these trends, although the weakening of external demand has started to influence exports. The budget law for 2002 provides for an increase in the budget deficit to 2.75% of GDP. So far, however, the actual deficit has been much lower than that and in agreement with the IMF, the target for the year has been set to 1.8% of GDP.

Main Economic Trends								
Latvia		1997	1998	1999	2000	2001	Average	2002 latest
Real GDP growth rate	per cent	8.4	4.8	2.8	6.8	7.7	6.1	3.8 Q1
Inflation rate ^a	per cent	8.1	4.3	2.1	2.6	2.5	3.9	2.8 July ^c
- annual average								
- December-on-December	per cent	6.4	2.7	3.0	1.7	3.2	3.4	1.1 July
Unemployment rate								
- LFS definition	per cent	14.4	14.5	13.7	14.2	13.1	14.0	13.5 Q2
General government budget balance	per cent of GDP	1.8	-0.7	-5.3	-2.7	-1.6	-1.7	
Current account balance	per cent of GDP	-6.1	-10.6	-9.7	-6.9	-9.7	8.6	
	Million ECU/€	-305	-576	-599	-538	-825 ^d	569	-275 Jan.-June ^d
Gross foreign debt of the whole economy	per cent of exports of goods and services	20.6	70.6	111.8	100.0	:	:	
- debt export ratio								
	Million ECU/€	523	1,968 ^b	3,052	3,546	:	:	
Foreign direct investment inflow	per cent of GDP	9.3	5.8	5.2	5.7	2.3	5.7	
- balance of payments data								
	Million ECU/€	460	318	324	442	198	348	304 Jan.-June ^d

Sources: Eurostat. National sources. OECD external Debt Statistics

^a PROXY HICP since 1998 (see methodological notes);

^b series break as a result of some technical changes to the definition.

^c Moving 12 months average rate of change.

^d Source: Website of the National Bank.

Structural reforms have strengthened the performance of the economy, even if the implementation of the reforms can be a challenge. An ambitious work to improve the business environment began in 1999. An essential element was the systematic involvement of the business community in the programming of structural reforms, which has paid off in terms of a wide range of actions undertaken. Legal certainty has been strengthened in the land market and in the business sector. The privatisation process is almost completed, but the process has gone much slower during the last years than initially planned. Progress was made during the last year, but some large enterprises are still awaiting their privatisation. With the introduction of a mandatory funded pillar in 2001, the pension reform is now largely completed. The financial sector has undergone substantial progress. Although financial intermediation is still relatively limited,

restructuring and consolidation of the sector have gone far. Supervision of the financial sector has also been significantly strengthened.

The transition to a market economy, and subsequent restructuring, has contributed to a rise, though geographically uneven, of incomes. GDP per capita in PPS reached 33.1% of the EU average in 2001. This measure shows good progress made since the Opinion in the process of catching up to income levels seen in the EU. However, growth has not been evenly distributed, but largely concentrated to a few areas. This is reflected both in terms of GDP, and in terms of unemployment. The Riga region reached close to half the EU level in 1999, whereas some inland rural areas have significantly lower levels. However, this measure, GDP per capita, do not fully reflect income per capita, and should therefore be treated cautiously. The economic activity rate⁷, around 68%, and the employment rate, around 59% have been overall fairly stable. The unemployment rates in some eastern districts are more than five times higher than in Riga city. Unemployment rates for men are, by about 3 percentage points, higher than those of women and have, unlike that for women not fallen over the past years.

Main Indicators of Economic Structure in 2001		
Population (average)	Thousand	2,355
GDP per head ^a	PPS	7,700
	per cent of EU average	33
Share of agriculture ^b in:		
- gross value added	per cent	4.7
- employment	per cent	15.1
Gross fixed capital formation/GDP	per cent	27.3
Gross foreign debt of the whole economy/GDP ^c	per cent	45.7
Exports of goods & services/GDP	per cent	44.9
Stock of foreign direct investment	Million €	2,284 ^c
	€ per head ^a	970
Long term unemployment rate	per cent of labour force	7.7

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

^b Agriculture, hunting, forestry and fishing.

^c Data refer to 2000.

⁷ The activity rate is the share of employed plus unemployed to total population in a certain age group.

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

Overall, there has been a broad consensus about the essentials of economic policy. Governments have changed frequently in the past, but economic policy has remained stable. Some disagreements about economic policy have, nevertheless, been evident as in the case of the privatisation process. Latvia has participated in the Pre-Accession Fiscal Surveillance Procedure. In particular, the most recent Pre-Accession Economic Programme of August 2002 indicated the commitment of the Latvian government towards further macroeconomic stabilisation and market-based structural reforms. Over the past years Latvia requested a series of stand-by arrangements from the International Monetary Fund as a precautionary measure. The present one was approved in April 2001, for a period of 20 months.

Growth has been strong and broad-based, and the economy has shown a remarkable capacity to adapt to changes in the external economic environment. Real GDP has grown by about 6.1% annually, and despite the worldwide slow down in economic activity, it expanded by even 7.7% in 2001. Only in 1999 was growth significantly lower, because of the crisis in Russia. Both domestic and external demand have contributed considerably to growth. Domestic demand has mainly been driven by gross fixed capital formation and private consumption, while the contribution from public consumption has been close to nil. Most important in domestic demand has been gross fixed capital formation, increasing by 19.5% annually, and 17.0% in 2001. However, investment growth has been very volatile, with annual growth rates ranging between -4.0% and 44.0%. Private consumption, growing by 4.8% on average, has contributed nearly as much as capital formation to growth. Growing by 6.1% annually, exports have also been important for growth. They have been affected by changes in the world economy, but have managed to adapt rapidly.

Reflecting strong domestic demand, and in particular a need for investment goods, the current account deficit remains large, with no trend of decline. The trade balance recorded a large deficit, 16.3% of GDP on average. After two years of decrease, the trade deficit increased sharply in 2001 to 17.9%. This was, however, mostly explained by a large one-off investment by the Latvian Shipping Company. Latvia's geographical position has made transit trade an important business, resulting in a surplus in the balance of services, which partly offsets the trade deficit. The deficit in the current account amounted to 8.6% of GDP on average. In 2001, the current account deficit amounted to 9.7%, of which approximately 2 percentage points was explained by the above-mentioned one-off investment. Over the years, a major part of the deficit has been covered by foreign direct investment (FDI), except for 2001, when FDI decreased at the same time as the current account deficit increased.

The unemployment rate has remained high and stable, despite rapid growth in the economy. In contrast to rapid GDP growth, employment has barely changed. After a small rise in 1998, employment has since been falling back to levels prevailing in 1997. This slow contraction in employment continued in the first quarter of 2002. The unemployment rate has been more or less unchanged, except for a minor peak in 1999. The average unemployment rate since 1997 has been 14.0%, and the 2001 unemployment rate was 13.1%. Long-term unemployment forms a large and increasing proportion of unemployment: 55.8% in 1997, and 59.1% in 2001. Considerable regional discrepancies are also a distinctive feature, pointing to low mobility of the labour force. This is attributable to several causes, for instance poor commuting facilities and a mismatch between supply and demand for skills.

Inflation has been falling to moderate levels. Average annual inflation was 3.9%, but the trend has been downward, from 8.1% in 1997 to 2.5% in 2001. Core inflation⁸ stood at 4% on average, thus very close to the overall rate of inflation. Yet the downward trend in core inflation was smoother and more sustained than for the overall inflation rate. Prices for services have increased more than twice as much as prices for goods. Part of the increase for services originates from rising fees for public services. Prices for railway transports, postal services, and telephone services for instance, have increased much more than prices on average. However, the picture during 2001 was different. Prices for services increased less than prices for goods, and prices for the above-mentioned services decreased. Annual inflation increased somewhat in the second half of 2001, mainly as a result of faster rising food prices, but started to decline again in the second quarter of 2002.

Since 1994, the lat has been pegged against the SDR⁹, which has served as a nominal anchor in monetary policy, and helped to secure price stability. Within the limits set by the goals of exchange rate stability and low inflation, monetary policy also aims at avoiding excessive volatility in interest rates. Partly reflecting the decline in inflation, and the growing credibility of the fixed exchange rate, interest rates have slowly declined. The average lending rate stood at 14.8% in 1997 and 10.2% in 2001. To move closer to the standards prevailing in the EMU area, reserve requirements have been lowered continuously, from 8% in 1997 to 5% as from January 2002. This monetary policy framework has led to stable and relatively low money market rates over the whole period. Real interest rates¹⁰ have also shown relatively low and stable levels over the period.

Since the peak in the budget deficit in 1999, fiscal policy has been directed towards budget balance in the medium term. At the beginning of the period, Latvia had a budget surplus, 1.8% of GDP according to national figures. However, the economic slowdown in 1999, and the subsequent increase in unemployment, together with tax reductions, changed the situation. In 1999, revenues increased slowly, and social expenditure increased rapidly, which resulted in a budget deficit of 5.3% of GDP in harmonised EU standards, ESA95¹¹. Benefiting from strong growth, and only modest increases in expenditure, the budget deficit decreased in the subsequent years. In 2001, it stood at

⁸ Defined as consumer price index without energy and unprocessed food.

⁹ IMF's Special Drawing Rights, a basket of the USD, EUR, GBP and JPY

¹⁰ Money market rates, corrected for consumer price inflation (HICP)

¹¹ According to national numbers the budget deficit was 3.3% of GDP. The difference is mainly explained by a decrease in tax arrears, which is taken into account by EU accounting standards but not by national numbers.

1.6% of GDP. In 2001, a compulsory funded pension scheme (“second pillar”) was introduced. Although this step will make public finance more sustainable over the medium term, in the short term it causes additional government expenditure. Furthermore, tax reductions were proposed, which will put additional stress on the budget. A second main task of fiscal policy, apart from budget balance in the medium term, is the reform of the tax system, aiming at a lower overall tax burden and a shift of taxation from production to consumption. In line with that, the corporate tax will be cut in stages down to 15% in 2004. Social security contributions and the real estate tax have also been discussed to be reduced. However, the reduction of the real estate tax will be compensated by a broadening of the tax base, expected to more than compensate for the reduction of the tax rate. Average general government gross debt for the period amounts to a comparatively low 13.6% of GDP. It has been increasing every year, in 2001 by 2.1 percentage points to 16.0% of GDP.

The macroeconomic policy mix has been adequate and managed to cope with external shocks. The monetary framework, defined by the peg of the lat, has been stable and predictable. Fiscal policy has been responsive to this framework, by adopting a prudent stance overall, translating into relatively low deficits on average, and flexibility in times of adverse economic shocks. This was in particular the case in 1999 in the aftermath of the Russian crisis, when automatic stabilisers were allowed to play freely and some tax arrears were extended, leading to a temporary sharp increase in the government deficit in 1999.

Price liberalisation was completed prior to 1997, and market forces determine the majority of prices of goods and services. The proportion of items whose prices are regulated has been the same for several years, at about 20% of consumer price index, CPI. It is mainly prices for the services of public utilities that are still regulated; e.g. electricity, gas, water and telephone services. A cost-recovery mechanism is in place.

The share of the private sector increased rapidly up to 1998 and has continued to increase since, but at a slower pace. Some 62% of GDP were produced in the private sector in 1997, which had increased to 69% by 2001. In terms of employment, the percentage is slightly higher. The land reform is close to being completed, and about 90% of agricultural land are in private hands. A real-estate market exists and a system of mortgage lending is fully operational. The privatisation of apartments is ongoing. Of all apartments, some 95% are assigned for privatisation, and of these about 77% had been privatised by 31 October 2001.

The privatisation process is nearly completed, but some large companies are still state-owned. Privatisation of small and medium-sized enterprises was by and large completed in mid-1998. However, the process has been slower since then. Nevertheless, some progress has been achieved, and only a few large enterprises remain to be privatised. The privatisation of Latvian Gas was carried out in several stages and successfully completed in February 2002, with two German and one Russian investors emerging as the major shareholders. The conditions for the sale of the remaining state-owned shares in Ventspils Nafta and the Latvian Savings Bank are being worked out. The sale of Lattelekom is expected to resume as soon as the ongoing arbitration case, concerning the curtailing of Lattelekom’s monopoly, is settled. An important step forward was the sale of 83% of the shares in the Latvian Shipping Company (LASCO) in 2002. The privatisation of LASCO started more than five years ago, but was interrupted several times. A large stake, close to 50%, has now been bought by Ventspils Nafta, which is itself partly (32%) owned by the

state. This transaction might have an impact on the scope for selling the remaining state share in Ventspils Nafta. In mid-2000, it was decided that the Latvian electricity utility, Latvenergo, should be temporarily removed from the list of enterprises to be privatised. Latvenergo, as well as the Latvian railway company, Latvijas Dzelzceļš, is currently under restructuring.

No significant barriers to market entry or exit are present. In 1999, a long-term co-operation between the authorities and the business community, represented by the FICIL¹², began. The aim was to identify and remove obstacles and administrative barriers in the business environment. 77 measures to improve the business environment have been suggested, and up to mid-2002 68 had been undertaken. Following the success of this work the co-operation has recently been broadened to incorporate a wider range of the business community. New firms have been created every year at the average rate of about 7% of total firms. The rate is slowly declining, naturally as the total number of firms is steadily increasing, and in 2001 the rate was about 6%. A new bankruptcy law became effective in late 1996, and was followed by a peak in liquidations during 1997 and 1998. Almost 10% of the existing companies were liquidated both years. Since then, about 2% of companies have been liquidated annually on average. However, the lack of administrative and judicial capacity is still a problem, and results in lengthy court proceedings and poor supervision of enterprises, which in turn makes life easy for tax evaders and those who do not obey laws and regulations.

The legal framework for enterprises is in place, although enforcement of relevant legislation still poses problems. Several important steps have recently been taken to create a comprehensive legal system. In July 2001, the computerised national Land Book was introduced, strengthening the legal certainty in the real estate market. In October 2001, a new unified utilities regulator, the Public Utilities Commission, started its activities. Finally, an important and long awaited change in company law was the new Commercial Code that came into force in January 2002. The law simplifies legislation, makes it more transparent, and brings it into line with EU requirements. However, the business community still points at the lack of administrative capacity, which undermines the enforcement of the legislation.

The financial sector is functioning well, although intermediation is still low. On average, domestic credit to the private sector has increased by some 46% annually since 1997. However, the increase has taken place from low levels. Thus it only amounted to 28.6% of GDP at the end of 2001, roughly double the ratio compared to that in 1997. 22 banks are currently operating in Latvia. Although some of them are very small and operating in market niches, this relatively high number of market operators guarantees a sufficient degree of competition, as witnessed by the downward trend in spreads between interest rates on loans and deposits. The spread for short-term loans and deposits has significantly declined from 9.4 percentage points to 5.9 in 2001, and for long-term loans and deposits from 7.2 to 3.6. Foreign involvement in the banking sector has been large and stable during the last years. The privatisation of the banking sector is almost complete and state ownership amounted at the end of 2001 to just 3.7% of total bank capital, whereas foreigners held 67.8%.

¹² Foreign Investors' Council in Latvia.

The financial sector has reached an adequate degree of stability. As a share of total loans, non-performing loans have decreased from 10.0% to 2.8%. All banks fully comply with the capital adequacy requirements. The capital adequacy ratio was 16.2% on average between 1997 and 2001, but has been declining and was 14.2% at the end of 2001. The sector as a whole reports stable profits. Supervision of the capital markets has improved significantly. In July 2001, the new Financial and Capital Market Commission started to operate. The commission unifies the supervision of the financial and capital markets into one body, and has been given far-reaching independence, similar to that of the central bank. Latvia is close to full compliance with the Basle Core Principles.

The non-bank financial sector is small, but slowly expanding. Stock market capitalisation has risen from 8.4% of GDP to 9.3%. A bond market did not exist in 1997, and its capitalisation only amounted to 5.7% of GDP in 2001. Part of that rise is due to the issue of government securities aimed at developing domestic financial markets, exceeding the budget financing needs. However, the introduction of the second pillar in the pension system in July 2001 is expected to promote the expansion of the capital market in the coming years.

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

The 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 before accession. Both the volume and the range of products traded with EU Member States provide evidence of such integration.

The existence of a market economy, with sufficient macroeconomic stability and progress on structural reforms, has established a favourable environment for economic growth and competitiveness. On the whole, economic policy has been conducted with a sufficient degree of predictability to allow proper decision-making by economic agents. The Latvian economy has shown resistance against external shocks, as proved by its reorientation of exports after the Russian crisis and its steady increase in exports to the EU, despite the appreciating exchange rate of the lat and the economic slowdown in Western Europe.

Average educational attainment is relatively high, although the situation is somewhat nuanced. Enrolment in higher education has increased constantly since 1997, and the number of students at higher educational establishments in 2001/02 was almost twice as high as in 1996/97. At the end of 2001, 14.4% of the population had higher education (12.7% at the end of 1996), 52.5% second-level education (52.8%), and 7.9% only basic education (10.6%). However, the majority of second-level qualifications is vocational; in many cases gained in the past, over-specialised and not adapted to current needs. In addition, the number of students in some technical courses is very small. This has created a shortage of certain skilled workers for industry. Furthermore, low remuneration has made it difficult to attract qualified teachers, particularly in rural areas. This fact is

conflicting with the need of further restructuring in the agricultural sector, which implies additional efforts on education. These problems have been recognised by the government, and education has been given priority in the budget. The reform of teachers' remuneration is ongoing and is expected to be finalised in 2003. Spending on research and development is relatively low and amounted to 0.4% of GDP in 1999, out of which some 17% was spent in the business sector.

To address the high and typically structural unemployment, employment policies should focus on active labour market measures. Vocational training and retraining of all unemployed is becoming increasingly important among these labour market measures. Since 1997, the number of unemployed involved in active labour market measures has more than doubled, although the increase mainly concerns job clubs and not the more expensive but also more necessary training initiatives. The effectiveness of training is evidenced by the fact that more than two thirds of those who received special training have found employment afterwards. To provide young, unemployed people with skills demanded by employers, the legislative base for apprenticeship has recently been worked out.

Latvia has been successful in attracting foreign direct investment even in times when the privatisation process has halted. Net inflow of foreign direct investment (FDI) has equalled 5.4% of GDP on average since 1997. In 2001, FDI was significantly lower at 2.7% of GDP. However, this was due to a local investor's take over of a foreign-owned enterprise, which is the same as negative FDI inflow. In the first quarter 2002, FDI was back at the previous higher level. By the end of 2001, 22.2% of the stock of FDI had gone into wholesales and retail trade, 17.4% had gone into financial intermediation, and 17.0% into manufacturing. The most important foreign investors were from Sweden (11.6% of total accumulated investment), Germany and the United States (each 11.5%). From 1997 to 1998, the share of total gross fixed capital formation in GDP increased from 18.7%, to 27.3%, induced by both private and public investment. The share of fixed capital formation in GDP, which was affected by the general economic slowdown in 1999 and tight fiscal policy, has since then been relatively stable at about 26%. Still, increased public expenditure on infrastructure is needed, particularly in roads and in the energy sector in rural areas.

Enterprise restructuring has proceeded well, although the agricultural sector lags behind. Promoted by the privatisation process, which is more or less complete, and a steady inflow of foreign direct investment, restructuring of enterprises has been far-reaching. The agricultural sector, however, is still characterised by many small farms with low productivity, even subsistence farming. This is reflected in the fact that the agricultural sector's share in total employment is about three times as large as the share in total GDP. However, a process of restructuring is also taking place in the agricultural sector, as shown by the decrease of total employment, at the same time as the share of employees increases.

The structural change of the economy has been significant but recently slowing down. The structural change of the economy has continued along its previous lines; i.e. the share of industry in total value added has declined, and the share of services has grown. The share of industry has decreased from 27.4% to 18.8%, which is exclusively due to a significant fall in manufacturing. The share of services has increased from 62.1% to 70.6%, driven particularly by a strong rise in wholesale and retail trade as well as in business services. However, the changes during 2001 were almost insignificant, which

might indicate that the economy has reached a more sustainable structure. In terms of employment, the development is similar.

The situation of small and medium-sized enterprises (SMEs) has improved, but entrepreneurial activity is still low. The above-mentioned co-operation with the Foreign Investors' Council in Latvia has resulted in general improvements in the fields of taxes, custom procedures, education, corruption etc. Besides these improvements of the business environment in general, some measures aimed directly at SMEs have been undertaken, such as tax exemptions, a simplified reporting system for small business, and business incubators. Access to funds for setting up business, and for SME development has been a problem. To facilitate access to funds, a program on SME crediting was approved in 1999. Together with a general decline in interest rates, the situation has improved significantly, and access to funds is now a smaller obstacle. Still, entrepreneurial activity is low with 17 active SMEs per 1000 inhabitants. SMEs employ more than 70% of total employment and create about 65% of total GDP.

State involvement in the private sector is moderate. During the period, tariff barriers have declined substantially. State aid has also declined and amounted to 1.2% of GDP in 2000, only half as much as in 1997. This development was mostly due to the decrease in support to the financial sector. A bank support programme was launched in 1994, which continued for several years. Then in 1999, the Central Bank and the government rescued the Riga Commercial Bank, which had become insolvent as a result of the Russian crisis. When these actions were completed, state aid to the financial sector decreased by 84.3% in 2000. State support to the industrial sector is mainly given in terms of capitalisation of tax debts. SMEs benefit from favourable credit lines, and small companies with less than 25 employees are entitled to tax exemptions. Subsidies are also given to the agricultural sector and represented 0.67% of GDP in 2000.

The Latvian economy is highly open with increasing trade links with the EU. Latvia is conducting a liberal foreign trade policy, aimed at finding new markets and enlarging the market share of existing markets. In February 1999, Latvia became a member of the WTO. The value of exports and imports to GDP has varied above 100%. In 2001, the sum of exports and imports represented 102.9% of GDP. Merchandise exports to the EU as a share of total merchandise exports have increased nearly every year. In 1997 they constituted 48.9%, and in 2000 64.6%. However, in 2001 the weakness of EU imports caused the share of Latvian exports to the EU in total Latvian exports to drop to 61.2%. The share of merchandise imports from the EU has been stable during the period at around 53.6%. However, exports are very much concentrated around a few branches and Latvia has made little progress in diversifying its export portfolio. In particular, the share of wood and articles of wood accounted for about 30% of total exports in 1997, and for some 34% in 2001; textiles and textile articles accounted for some 14% in 2001, one percentage point up from 1997. Still, within the branch of wood and articles of wood, there has been an orientation towards higher-value-added products.

Strong productivity growth has secured external competitiveness. Strong growth in fixed investment has made it possible for productivity to grow rapidly without extensive lay-offs. On average, productivity has grown by 5.2%, and in 2001 it grew by 7.7%. This strong rise in productivity has offset the rise in real wages in recent years, and unit labour costs have therefore been relatively stable in recent years and have secured the price competitiveness of Latvian exporters, as witnessed by the strong export performance.

2.4. General evaluation¹³

The 1997 Opinion already acknowledged the reform efforts undertaken by the Latvian authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, in particular the Russian crisis, economic performance has improved. Macroeconomic stability has been achieved, reforms have accelerated while the Latvian authorities' commitment to the economic requirements of EU accession has been sustained.

Hence, it is concluded that Latvia is a functioning market economy. The continuation of its current reform path should enable Latvia to cope with competitive pressure and market forces within the Union.

Improvements can be made to the functioning of the labour markets, in particular by active labour market measures in favour of disadvantaged groups, reinforcing public and private infrastructure necessary for the mobility of the workforce and further reforms to the educational system. Fiscal policy has to maintain a prudent approach, also in view of the high current account deficit. In addition, improving the general business environment and strengthening the administrative and judicial capacity would support a more broad-based private sector development.

¹³ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

3. Ability to assume the obligations of membership

Introduction

This section addresses the question of Latvia's ability to assume the obligations of membership – that is, the legal and institutional framework, known as the *acquis*¹⁴, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2001 Regular Report, this section seeks to provide an overall assessment of Latvia's ability to assume the obligations of membership, and of what remains to be done. Furthermore, it includes an evaluation of Latvia's track record since the 1997 Opinion. It also provides, for each of the negotiating chapters, a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted.

This section is structured in accordance with the list of 29 negotiating chapters, and incorporates an assessment of Latvia's administrative capacity to implement the *acquis* in its various aspects. Latvia's progress in translating the *acquis* into its official language is assessed in a separate section.

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

In June 2002, the Seville European Council repeated how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level. Building on the assessment of Latvia's administrative capacity provided in the 2001 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures required for implementing the various aspects of the *acquis*.

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

"Latvia has made some progress in transposing and implementing the acquis relating particularly to the single market. With considerable further effort it should become able to participate fully in the single market in the medium term. Particular efforts, including investment, will be needed to apply the acquis fully in sectors such as environment and agriculture. Strengthening of the administrative structure is indispensable if Latvia is to have the structures to apply and enforce the acquis effectively."

In the 2001 Regular Report, the Commission found that :

¹⁴ A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Latvia's application for EU membership.

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

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

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

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

Radiation Safety Centre and the Latvian Environment Agency, and, but further efforts to upgrade the administrative structures are needed.

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

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

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

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

3.1. The chapters of the *acquis*

As indicated, the following review of Latvia's ability to assume the obligations of membership has been structured in accordance with the list of 29 negotiating chapters. Accordingly, this section opens with an assessment of progress relating to the cornerstones of the internal market which are known as the "four freedoms", and

continues with a systematic review of progress on each of the chapters, covering all aspects of the *acquis*, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Progress since the last Regular Report

Since the last Regular Report, Latvia has continued to make steady progress in aligning its legislation with the *acquis* in this domain and in strengthening the relevant administrative capacities.

In the area of **horizontal and procedural measures**, the transposition of the general legal framework for the *New and Global Approach principles* has been completed. In the field of standardisation, Latvia accelerated the adoption of European standards. By the beginning of July 2002, the Latvian standardisation body has adopted 8 116 standards, including 7 420 European standards. Latvia had transposed 6 617 CEN standards, representing 90.7% of the total; 614 CENELEC standards, representing 15.3% of the total; 189 ETSI standards, representing 10.3% of the total number. As regards safety checks on borders, border inspection posts on external borders have been modernised.

Progress can also be reported on the adoption of **sector-specific legislation**. Latvia continued the transposition of sectoral directives. In the areas covered by *New Approach Directives*, all but a few Directives have now been transposed. Since the last Regular Report, progress was made in the implementation of the *acquis* on radio and telecommunications terminal equipment, and on medical devices. There has, however, been no significant progress in the field of recreational craft.

As regards sectors covered by *Old Approach Directives*, progress has been made in the implementation of the *acquis* on fertilisers, medicines for human use, medicines for veterinary use and aerosol dispensers. In the field of fertilisers, the law on production and marketing of fertilisers was adopted in November 2001 and the secondary legislation in June 2002. With the enactment of this law the State Plant Protection Service will carry out surveillance and control functions in respect of production and marketing of fertilisers. Regarding medicines for human use, the Regulation adopted in November 2001 aims at aligning to the *acquis* in this field. Amendments to the law on veterinary medicine were adopted in December 2001. In the field of aerosol dispensers, the regulation, adopted in March 2002, aims at transposing the *acquis* in this area. Since the last Regular Report, there has been no progress in the field of explosives for civilian use.

As regards the issue of food safety and foodstuffs legislation (*see also Chapter 7 - Agriculture*), Latvia transposed legislation on genetically modified foods, novel foods and labelling.

Some progress has been made regarding the transposition of the *acquis* on firearms and cultural goods. Amendments to the law on cultural monument protection were adopted in November 2001. The Law on weapons, ammunition, explosives and pyrotechnical products was adopted in June 2002. The Law provides for classification of weapons, special tools and pyrotechnics, and determines the terms of production, repair, purchase, collection, export, import and transit, awarding, usage, storage, transportation, forwarding, confiscation of the mentioned articles and mechanisms.

As regards the development of Latvia's administrative capacity for the implementation of horizontal and procedural measures and sector-specific legislation, since the last Regular Report, further efforts have been undertaken to strengthen the administrative capacity, in particular in the areas of standardisation, metrology, and market surveillance. The national standardisation institution has continued its programme of transposing European standards. Since January 2002, it has represented Latvia, as an associate member, in the International Electrotechnical Commission, and since March 2002, as an affiliate member, in CENELEC. In 2001, the Latvian National Metrology Centre strengthened its administrative capacity and the market surveillance system has been enhanced. Since January 2002, the Market Surveillance Council, a consultative forum including representatives of ministries, surveillance authorities, customs authorities and consumer organisations, has been operational. Its main tasks are to ensure effective co-operation between members and to create an uniform approach to the market surveillance of all sectors, taking into account consumer and industry interests. As concerns food safety, the Joint Food Supervision Service, the Food and Veterinary Service (FVS), as the sole institution responsible for official control of the entire food chain, has been operational since January 2002. Institutional preparations in the field of Rapid Alert System for Foodstuffs and Feed (RASFF) as well as genetically modified and novel food have commenced.

Since the last Regular Report, progress has been made as regards the **non-harmonised area**. The screening of legislation for provisions that might not be compatible with Articles 28 to 30 of the EC Treaty has been completed, and some obstacles have been identified. They mainly concern licence systems.

In the area of **public procurement**, progress has been made both with regard to the alignment of legislation through the adoption of the law on procurement for state or local government needs, and regarding the administrative capacity through the establishment of the Procurement Monitoring Bureau in January 2002. The Bureau provides information, statistics and training on public procurement and is the central point for the publication of tender notices and award results. It also ensures the proper application of rules, receives complaints, investigates and is able to stop procedures.

Overall assessment

Latvia has transposed a significant part of the *acquis* on free movement of goods. The legal framework on the New and Global Approach is in place and there is sustained development of the standardisation system in Latvia. Steps have been taken in order to reform the market surveillance system. Regarding notification procedures, the Latvian Standards body acts as the WTO/TBT enquiry point and is also responsible for the co-ordination of the exchange of information in the areas of technical barriers to trade and sanitary and phytosanitary measures in the context of the *acquis*.

As regards the non-harmonised area, correct implementation of Articles 28 to 30 of the EC Treaty, identification and elimination of trade barriers by amending the relevant legislation, implementation of the mutual recognition principle, and the establishment of appropriate administrative capacity to deal with problems related to this area should remain a priority.

As regards sector-specific legislation, a large part of the *acquis* is in place. The transposition of the New Approach directives has progressed and for the remaining

sectors such as aerosols, radio and telecommunications terminal equipment, recreational craft, gas appliance and pressure vessels, the transposition is underway. As regards the Old Approach, the legal and administrative framework on drug precursors, glass, textiles, footwear and wood are already in place and transposition of legislation is progressing steadily. However, completion of alignment is still necessary in the fields of medicines for human use, medicines for veterinary use, and explosives for civilian use.

As regards food legislation, Latvia is fairly advanced in transposition, but the process needs to be completed, including legislation on irradiation, so as to remove any possible inconsistencies between Latvian legislation and the *acquis* in this field. Further efforts have now to be made to ensure enforcement of the transposed legislation.

As for administrative capacity in this area, the Latvian accreditation, standardisation and metrology bodies have been in place for years and their administrative capacity continues to be strengthened. The Accreditation Council together with the Latvian National Accreditation Bureau and the Technical Committees constitute the accreditation system. The Latvian Accreditation Bureau has been a full member of the European Co-operation for Accreditation since June 1999. A new assessment of the Bureau is ongoing in order to make it possible to sign Mutual Recognition Agreements between the Bureau and other European Co-operation for Accreditation members by the end of 2002. The good pace of adoption of European standards needs to be maintained. New equipment and training allowed strengthening the administrative capacity of the Latvian National Metrology Centre.

In the field of Market Surveillance, some efforts have been made to enhance the administrative capacity. The Market Surveillance Council has been established to ensure co-ordination between Market Surveillance bodies. Moreover, the Consumer Rights Protection Centre, which is the main authority responsible for general product safety in almost all non-food products, has strengthened its administrative capacity through training. Latvia should continue to develop infrastructure in the areas of market surveillance.

Regarding food safety (*see also Chapter 7 - Agriculture*), the establishment of the Food and Veterinary Service now requires more adequate resources and further training to ensure in particular a sufficient level of sampling and to bring control activity of food of non-animal origin up to the required level. Latvia also needs to boost its preparations for future membership of the Rapid Alert System for Foodstuffs and Feed with particular focus on procedures in case of alerts and withdrawals. Implementation of novel food legislation is advanced, but the laboratory for genetically modified foodstuff testing needs to be designated and additional resources should be made available.

As regards sector specific legislation, Latvia has to make further efforts to enhance administrative capacity, in particular in the food sector.

As regards safety checks on products at external borders, Latvia has to continue to strengthen customs and market-surveillance infrastructure, as well as administrative co-operation between competent authorities.

The new legislation on public procurement constitutes a significant step towards alignment with the *acquis* in this area. However, incompatibilities remain in particular regarding coverage and publicity. While a public procurement body is now in place, the

administrative structures and notification procedures need to be strengthened in order to comply with the requirements of the *acquis*.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia had made some efforts to fulfil the requirements of Community legislation on free movement of goods. Efforts from Latvian authorities should focus on improving the alignment record in technical legislation where reinforcement of technical expertise is needed. The Commission added, that, if the pace of harmonisation was maintained, implementation of the *acquis* should not represent a serious obstacle to Latvian accession, but the major difficulty in this process was the lack of experienced staff. The Latvian authorities should also ensure that in the non-harmonised sector, their own national laws did not hamper trade. Further legislative work was also necessary in the field of public procurement.

Since the Opinion, Latvia has made steady progress in the adoption of the *acquis* in this field, and a good level of transposition has been achieved. The legal and institutional framework is generally in place, and there is sustained development of the standardisation system, which needs however to be reinforced. Steps have been taken in order to reform the market surveillance system and to establish the respective infrastructure, including on food safety and public procurement, but further strengthening is necessary. Overall, Latvia is at an advanced stage in terms of transposition and administrative capacity in the field of free movement of goods.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements in this area. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia should now focus efforts on completing transposition (notably in the area of sectoral legislation, with a special focus on food safety and foodstuffs legislation, as well as on public procurement). It should continue efforts on eliminating trade barriers which were identified during the screening of legislation in the non-harmonised areas by amending the relevant legislation, and on implementing the mutual recognition principle as well as strengthening administrative capacity, in particular in the areas of market surveillance.

Chapter 2: Free movement of persons

Progress since the last Regular Report

During the last year, Latvia made further progress in aligning its legislation and in strengthening administrative capacity in the field.

In the area of **mutual recognition of professional qualifications**, some progress has been made in adopting regulations to implement the Law on Regulated Professions and Recognition of Professional Qualifications, adopted in June 2001. In early 2002, legislation on minimum requirements of educational programmes for doctors, architects, dentists, pharmacists, nurses, midwives and veterinarians were adopted.

Limited progress can be reported on **citizens' rights**. The Law on Personal Identification Documents was adopted in May 2002. According to the Law, identification cards, in

conformity with international standards, will be issued to foreigners instead of the existing residence permits. There were no notable developments in the area of voting rights.

There have been no developments in the area of **free movement of workers**. Preparatory work has continued to facilitate Latvia's participation in the European Employment Services system (EURES).

Latvia has continued to strengthen administrative capacity for the future **co-ordination of social security** matters. An inter-institutional working group to supervise preparations in this field has been established and internal training activities have been carried out. Latvia has continued to implement its bilateral agreements on social security.

Overall assessment

Framework legislation in the area of mutual recognition of professional qualifications is in place. However, further legislative work is still necessary in the form of the adoption of implementing regulations. In addition, further amendments are still necessary to achieve alignment with several sectoral directives, including for veterinarians, lawyers, dentists, nurses, midwives and pharmacists, in order to reach full harmonisation. Shortcomings have been identified with regard to curricula and training for nurses which need to be addressed. Specific legislation is needed to enable midwives to work autonomously. With respect to professional qualifications obtained before harmonisation, Latvia needs to introduce measures to ensure that all its professionals can, as of accession, meet the requirements laid down by the directives. A major effort is needed in the short term to improve considerably training for midwives. The administrative structures and institutions involved in the field of mutual recognition of professional qualifications will also need to be considerably strengthened.

While preparatory work has already taken place, these efforts will need to be maintained to ensure full alignment by accession. By accession, it has to be ensured that all Latvia's legislation is aligned with Community rules, in particular with respect to nationality, residence and language requirements. Legislation on mutual recognition needs to be monitored to ensure that it distinguishes between academic and professional recognition and includes simpler procedures to allow the provision of services.

Concerning citizens' rights, the legislation on the right of residence as well as the legislation on voting rights, in particular relating to the European Parliament elections, still need to be adopted. Moreover, implementation of the legislation on voting rights will still require certain changes to Latvia's Constitution.

In the area of the free movement of workers, legislation is only partially aligned and efforts are required to ensure complete alignment by accession, including the social and cultural integration of migrant workers and their families. As regards future participation in the European Employment Services system (EURES), efforts should continue, especially with regard to language training.

With a view to the future coordination of social security systems, further work to develop the necessary administrative structures is needed. Institutional capacity needs to be strengthened further so as to enable Latvia to apply the *acquis* on coordination of social security. The implementation of several agreements on social security will facilitate

Latvia's compliance with the regulations as of accession, as they normally rely on the same principles as the social security coordination regulations, and this will familiarise the administration with the relevant procedures.

As already stated last year, the Language Law and the implementing regulations provide for certain linguistic requirements in areas relating to this chapter; for example, there is a list of professions and positions for which certain levels of language proficiency are required. It will be important to ensure that this legislation is implemented in full respect of the principles of justified public interest, proportionality and non discrimination, Latvia's international obligations and the Europe Agreement.

Conclusion

In its 1997 Opinion, the Commission concluded that a number of changes would have to be introduced in order to comply with the *acquis* on free movement of persons. As regards mutual recognition of professional qualifications, the preparation of the necessary legislative and enforcement measures would need to be very much intensified and sustained if they were to be in place in the mid-term perspective.

Since the Opinion, Latvia has made progress in aligning with the *acquis* in this area, and has further strengthened the relevant institutions, including with regard to the future coordination of social security systems. The process of bringing Latvia's legislation and structures in relation to the free movement of persons into line with the *acquis* has developed satisfactorily although further efforts are required.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia has agreed to a transitional arrangement in respect of the free movement of workers put forward by the EU. Restrictions on the movement of workers from Latvia to the EU will apply for a minimum two-year period as of the date of accession and may remain in force for a maximum of seven years. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on the adoption or completion of outstanding legislation with regard to voting rights, free movement of workers and mutual recognition of professional qualifications, as well as on further strengthening institutional capacity. Curricula and training for nurses will need to be adapted in line with Community requirements.

Chapter 3: Freedom to provide services

Progress since the last Regular Report

Since last year's Regular Report, Latvia has made good progress, particularly in the banking field .

In the field of **the right of establishment and the freedom to provide services**, the Commercial Law came into force in January 2002, ensuring further compliance with these basic EC Treaty principles. In the Department of Industry of the Ministry of Economy two officials have been appointed responsible for carrying out a screening of Latvian legislation with a view to identifying and eliminating potential legislative or administrative obstacles in this area. The screening has still to be carried out.

In the field of **financial services**, Latvia has continued the harmonisation of its legislation with the *acquis*. With regard to the *banking sector*, amendments to the Law on Natural Person Deposit Guarantees were adopted in October 2001. They provide for the extension of the Deposit Guarantee Scheme to legal persons as of January 2003, according to the same principles as for natural persons, as well as for the implementation of other requirements included in the Directive on Deposit-Guarantee Schemes. Moreover, amendments to the Law on Credit Institutions were adopted in April 2002. The new amendments clarify the definition of key terms and introduce new legal norms in a number of areas. The amendments also implement the “single licence” principle as from accession. Further steps have been taken to enhance the administrative capacity of the regulatory authority.

There were no particular legislative developments in the *insurance sector* during the period under review, except in the field of supervision.

With regard to *investment services and securities markets*, the Law on Investor Protection, adopted by the Parliament in November 2001, provides for the establishment of a special scheme to compensate up to 90% of losses incurred by investors resulting from irrevocable loss of financial instruments or non-executed investment services by providers of investment services. The maximum compensated amount is currently set at LVL 3 000 (€ 1 867) and the arrangement is in line with the respective transition period provided for in the Law. Moreover, amendments to the Law on Securities entered into force in January 2002, which aim at further alignment with the requirements of the *acquis* relating to investment services.

Further to the transition from three separate regulatory authorities for each of the sectors (banking, insurance and securities) to the integrated supervisory body, the Financial and Capital Market Commission, in July 2001, Latvia has further improved its overall quality of supervision.

Concerning the **protection of personal data and the free movement of such data**, limited progress was made as regards the strengthening of the independence of the State Data Inspectorate. However, an enhancement of its operational capacity can be reported: the number of its staff has increased to 17 employees as compared to 10 in 2001, and its budget has also increased.

As regards **information society regulations**, some progress was made with the adoption of the Electronic Document Law, which aims at aligning with the *acquis* regarding legal status and digital signatures in October 2001. In addition, the Action Plan of the policy document on Electronic Commerce was adopted in December 2001.

Overall assessment

In the field of the right of establishment and freedom to provide services, Latvia has yet to carry out a systematic screening of its legislation in order to ensure that no legal or administrative barriers will exist upon accession. The entry into force of the Commercial Code should eliminate a number of existing restrictions, such as the requirement of Latvian nationality or linguistic requirements, in the context of establishing an entrepreneurial activity or where licences are required, as for gambling, lotteries, mining and security services. It will be important to ensure that during the internal transitional period provided for full transposition of the Commercial Code, the restrictions will no

longer apply. Furthermore, due attention should be given to the implementation of the Language Law in full respect of the principle of proportionality, which must not create trade obstacles for EU service providers.

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

On *banking*, the new competent supervisory authority, as regulator of the banking industry, has issued rules and is implementing policies and practices which are similar to the Recommendations of the Basle Committee on Banking Supervision and broadly in line with EC directives. Due attention should be given to the timely implementation of the amendments regarding the minimum requirements concerning the deposit-guarantee scheme.

As regards the *insurance* sector, the basic features of the EC supervisory system are covered by the current legislation. Latvia, however, must still transpose some of the core provisions of the *acquis* on life and non-life insurance, and align in the areas of reinsurance and insurance against civil liability in respect of the use of motor vehicles, including the structure of liability and the minimum level of third-party cover. Further alignment is also needed as regards accounting rules.

In the field of *investment services and securities markets*, many provisions of the *acquis* need to be transposed in more concrete terms and the process of alignment needs to be speeded up significantly. Notably the transposition of the Investment Services Directives still presents a number of significant omissions and weaknesses such as on the definition of 'regulated markets'. Also the Law on Investment Companies has not yet fully transposed the UCITS Directive into Latvian law. Finally, it will be important for Latvia to ensure the gradual fulfilment of the minimum requirements under the investor compensation scheme.

The overall standard of supervision in the *financial services* sector in Latvia is satisfactory. The Financial and Capital Market Commission (FCMC), which started its operations in July 2001, is well equipped in terms of computerisation and telecommunication devices. It has developed good co-operation with foreign financial supervisory authorities. Regarding its supervisory practice in the banking sector, the Law on Credit Institutions provides that on-site examinations must be carried out at least once a year. 25 examinations were conducted in 2001 and 7 in the first quarter of 2002. Concerning the insurance sector, in 2001, 42 examinations, including 7 audits, were carried out in insurance companies. The transfer of powers to the integrated supervisory body has not disrupted the supervision process but has strengthened co-ordination. Full financial independence will gradually be achieved by 2007.

As regards the *protection of personal data and the free movement of such data*, Latvia should introduce the necessary amendments in its legislation so as to be fully aligned with the *acquis*. Furthermore, Latvia still needs to finish setting up a fully independent national supervisory authority for data protection. Particular attention should be paid to the procedure for appointing and dismissing the head of this body.

In the field of *information society* services, efforts to transpose the legal provisions of the *acquis* in this area, in particular the *acquis* on electronic commerce, conditional access and the transparency mechanism, have so far remained at conceptual level. The

administrative structure still needs to be established, and human resources necessary for the effective implementation and enforcement of the *acquis* allocated.

Conclusion

In its 1997 Opinion, the Commission concluded that in this area Latvia was well advanced and would in the coming years not have any major problems in meeting the requirements of the main EC directives. The Commission added that the most important remaining difficulty was the strengthening of the banking sector in order for it to function as a financial intermediary supporting domestic investments.

Since the Opinion, Latvia has made steady progress in most areas of the chapter, both in terms of legislation and in bolstering the administrative and regulatory infrastructure required to supervise the financial services sector. While more remains to be done in particular in the insurance and securities sectors, overall a high level of alignment has been achieved in this field.

Negotiations on this chapter have been provisionally closed. Latvia has been granted two transitional periods (both until 31 December 2007) in which it has to ensure that its legislation on the deposit-guarantee scheme and the investor compensation scheme fully complies with the *acquis*. Latvia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on completing alignment, in particular in the areas of life and non-life insurance, securities markets, investment (undertakings for collective investment in transferable securities) and information society services. It should also complete alignment with the data protection *acquis*, including the establishment of a fully independent data protection authority and eliminate provisions which discriminate against non-nationals as regards the right of establishment and freedom to provide services.

Chapter 4: Free movement of capital

Progress since the last Regular Report

Since the last Regular Report, Latvia has continued to align with the *acquis* in the area of free movement of capital and has taken further steps to improve the administrative capacity in this field.

In the field of **capital movements and payments**, no major developments have taken place since the last Regular Report.

The Bank of Latvia has been granted new powers this year through amendments to the Law on the Bank of Latvia, which entered into force in January 2002. These amendments assigned the function of **payment systems** oversight as a legal responsibility of the Bank of Latvia. In April 2002 amendments to the law on credit institutions were adopted to include provisions on the settlement of disputes between banks and customers on cross borders credit transfers. In July 2001, the Bank of Latvia adopted Recommendations to align with the *acquis* on electronic payment instruments. Finally, in July 2002 the Bank of Latvia adopted Regulations to fully transpose the Directive on cross-border credit transfers.

As regards **money laundering**, in November 2001 new guidelines concerning suspicious financial transactions were approved. The guidelines broaden the scope of supervision by extending the reporting obligations not only to credit institutions, but also to brokerage firms, investment companies, insurers, stock exchanges and private pension funds. The Latvian Financial Intelligence Unit (FIU), the Office for the Prevention of Money Laundering, has improved its software and IT systems and strengthened its internal control mechanism.

Overall assessment

In the field of capital movements, liberalisation in line with the *acquis* is now almost complete. However, a number of restrictions on capital movements nevertheless remain. The law on security services, which entered into force in July 2001, still includes restrictions concerning citizenship and language requirements. With regard to the acquisition of real estate, Latvia still has to adopt legislation in order to end the restrictions concerning acquisition of land by foreign natural persons. Further alignment is also necessary to reach full compliance with respect to the four guarantee funds, as well as the Law on Collective Investment Undertakings. As regards investments in foreign assets by supplementary pension funds and insurance companies, further alignment of the laws on private pension funds with the *acquis* is necessary.

As regards payment systems, the alignment of security settlement systems and of cross-border credit transfer with the *acquis*, especially the Settlement Finality Directive, remains to be completed. Latvia still needs to establish an out-of-court redress scheme to deal with the settlement of complaints between banks and their customers.

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

As regards money laundering, Latvia's legislation is generally in line with the *acquis*. However, a few amendments to the Law on prevention of the legalisation of the proceeds derived from criminal activity are still necessary. Further improvements are still required in respect of alignment with the *acquis* of the law on the prevention of the laundering of proceeds from crime.

Latvia has a separate Financial Intelligence Unit (FIU - the Office for the Prevention of Money Laundering), which employs 13 staff, including 5 financial transaction analysts. Out of the total number of 3 303 reports received in 2001, only 59 were forwarded to the Prosecutor General's Office (40 in 2000). The Office needs to be reinforced further, in particular in terms of staff and equipment. Training activities for the FIU, Economic Police, Prosecutors, Customs Officials, Bank Managers and employees should be pursued. More emphasis should be placed on reinforcing co-operation between the competent bodies and on rendering the prosecution of complaints lodged by the FIU with the law enforcement bodies more effective. In addition, an adequate increase in the resources of the FIU is necessary. Steps should be taken to ensure compliance with the Recommendations of the Financial Action Task Force.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia had introduced current account convertibility and almost completed liberalisation of capital movements. It added that Latvia should be able to eliminate the remaining restrictions on the movement of capital in the medium term, thus fully assuming the Community *acquis* in this area.

Since the Opinion, Latvia has made steady progress, both in aligning its legislation and in developing the necessary administrative structures. Overall, legislative alignment is well advanced, but the process needs nevertheless to be completed as regards capital movements and payments. The administrative structure has been put in place in this field, but further reinforcement of its capacity in some areas remains necessary.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements in this field. Latvia is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Latvia's efforts should now focus on completing alignment and eliminating all remaining restrictions, and reinforcing administrative capacity, paying particular attention to the bodies involved in the fight against money laundering.

Chapter 5: Company law

Progress since the last Regular Report

Since last year's Regular Report, Latvia has made further progress in the areas of company law and the protection of intellectual and industrial property rights.

Regarding **company law**, the new Commercial Law entered into force in January 2002, providing for a transition period for companies to re-register with the state enterprise register by the end of 2004. In February 2002, the Parliament adopted amendments to the Commercial Law, providing for the protection of minority shareholders. The administrative capacity of the state enterprise register has been further strengthened; additional funds have been allocated, to upgrade the technical infrastructure and to hire 30 new employees. In 2001, 7 402 enterprises were registered in the state enterprise register, compared with 8 048 in 2000.

As regards **accounting**, with the entry into force of the Law on Sworn Auditors in January 2002, transposing the 8th Directive, the accounting and auditing legislation appears to be in line with the *acquis*. The law creates the legal basis for the professional operation of sworn auditors and the Ministry of Finance supervises the operation of the Latvian Sworn Auditor Association, the responsible authority. In order to ensure state supervision, the Ministry of Finance appointed three authorised representatives in January 2002.

In the field of **industrial property rights**, the administrative capacity of the Latvian patent office has been strengthened: in 2001, 26 employees were trained on the legislation and registration of trademarks, as well as on the implementation of the system of Community trademarks issues. During the reporting period, there has been a

significant increase in the number of patents and trademarks granted as well as appeals against the decisions of the patent office.

In the field of **intellectual property rights**, two Regulations, one on the distribution of films and one on private copy, came into force in January 2002. The co-ordinating bodies in the areas of intellectual and industrial property rights continued with the implementation of approved action plans in the framework of the strategic development programme on the development and protection of intellectual property (2001-2005).

Administrative capacity in this field has been strengthened. Specialised seminars and training were organised for police, prosecutors, customs officials, and judges. These activities aim to establish a situation where each customs point has a customs official with special skills in the area of the protection of intellectual property rights. In order to streamline the enforcement of the legislation on the protection of intellectual property rights, a manual for customs officials has been prepared. Through a reorganisation, the division to combat audio, video and computer piracy was established (22 employees) in the economic police bureau in March 2002. Two additional staff positions have been allocated to the intellectual property protection division of the national customs board.

During 2001, a significant increase was observed in seizures of CDs, videotapes and software, as well as in the number of administrative protocols drawn up. However, only a small increase was reported in registered and disclosed infringement cases regarding copyrights and neighbouring rights.

No new developments are to be reported in the area of the **Regulation replacing the Brussels Convention** on jurisdiction and enforcement of judgements in civil and commercial matters and of the **Rome Convention** on the law applicable to contractual obligations.

Overall assessment

Regarding company law, Latvia's legislation is already largely in line with the *acquis* on accounting law, but some discrepancies still remain. Although in general progress has been made with regard to administrative capacity, almost a quarter of companies obliged to submit their annual accounts to the state enterprise register failed to do so. Regarding *accounting law*, Latvia's legislation was already broadly in line with the *acquis*, but remains to be amended in order to allow fair value accounting.

Also in the field of industrial property rights, Latvia's legislation is well advanced although full alignment with the *acquis* remains to be achieved on patents, trademark and designs legislation. However, Latvia should be able to introduce the remaining outstanding industrial property measures in due course. In January 2002, 1 947 patents, 27 965 trademark and 488 industrial design patents were in force.

As far as intellectual property rights are concerned, Latvian legislation is largely in line with the Community *acquis*. However, further alignment is needed in view of the *acquis* on copyright in the information society as well as on resale rights.

As regards the enforcement of copyright legislation, and despite some positive trends, the high levels estimated by private industry of counterfeit and pirated music (64%), software

(59%) and videos (85%) remain a matter of serious concern. The fight against counterfeiting and piracy must therefore continue to be high on the agenda. Better co-operation and co-ordination among enforcement bodies remains a matter of priority.

While administrative capacity has slightly improved, border controls still require substantial strengthening. Regarding the judiciary, even though considerable efforts have been made to train judges in various aspects of national and international intellectual and industrial property rights law, the track record of convictions in criminal cases remains rather poor. To a large extent, this is due to the outdated provisions of the current criminal procedural law and the still pending adoption of the new Law on Criminal Procedure.

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

Conclusion

In its 1997 Opinion, the Commission concluded that in certain areas significant progress had been made regarding the adoption of framework directives necessary for regulating a market economy. Still, further legislative efforts had to be made, especially regarding intellectual and industrial property rights, before full compliance could be achieved. The Commission added that, if the pace of harmonisation with EC legislation achieved was maintained, Latvia should have a good chance of fulfilling the legislative requirements in this field in the medium term, although some problems of implementation and enforcement might persist.

Since the Opinion, Latvia has made progress in aligning company law, and has also aligned its laws on trademarks and patents with the *acquis*. Latvia's legislation in the field of industrial and intellectual property rights is also largely aligned. Furthermore, gradual progress has been made with strengthening administrative capacity.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia has agreed to the EU proposal regarding intellectual property rights for pharmaceutical products and Community Trademark. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on ensuring full alignment with the *acquis* along the lines set out above, intensifying measures to combat piracy and counterfeiting and, more broadly, further improving co-ordination between enforcement bodies (customs, police, judiciary).

Chapter 6: Competition policy

Progress since the last Regular Report

Since last year's Regular Report, Latvia has made further progress in this area.

In the **anti-trust** field, the new Competition Law, which entered into force in January 2002, introduced important improvements of both substantive and procedural rules,

including the definition of dominance, the criteria for merger control, and sanctioning powers. In June 2002, a block exemption in the field of rail and cargo transport was adopted.

The *Competition Council*, together with its investigative Competition Bureau, has continued to build on its enforcement record over the past year. In 2001, it took 30 anti-trust decisions (compared to 20 in 2000), including 6 prohibitions (1 with fines). The decisions included 15 cases of abuse of dominant position, 11 cases of restrictive agreements and 4 merger cases. The Competition Council (in its decision-making capacity) has operated, for a large part of the year, with only 3 of the required 5 members. The level of overall staffing remained at around 40, but with a continued high turnover rate of 30%. The budget of the Competition Council was increased by 3.8%.

In the field of **state aid**, important amendments aimed at aligning the special economic zone and free port legislation with the EC *acquis* entered into force in January 2002. Latvia's annual state aid report for 2000 was presented to the European Commission in November 2001.

There has been progress with regard to measures to strengthen the administrative capacity for the enforcement of state aid legislation, and training activities have continued. In January 2002, a new division, the State Aid Control Division (currently with a staff of 3) was created within the Ministry of Finance. This division takes over the role of Secretariat to the *State Aid Surveillance Commission* (an independent collegiate institution made up of 13 officials representing different state institutions). In 2001, there were 21 decisions/opinions taken in state aid cases. Most of the cases were linked to tax debt capitalisation and write-offs of tax debts that originated before privatisation.

Overall assessment

As regards anti-trust, further strengthening is still required. While the Law on Competition of 2001 contains the main principles of Community anti-trust rules as regards restrictive agreements and abuse of dominant position and merger control, it must be ensured that the rules also allow for effective enforcement. Further implementing legislation still needs to be adopted, primarily in relation to the policy represented by the three EC block exemptions for vertical and horizontal agreements.

As regards the Competition Council, including its investigative Competition Bureau, increased priority still needs to be given to increasing the level of resources. Particular attention needs to be given to enhancing the competence of staff, as well as decreasing its turnover rate. The proper functioning and independence of the Council in its decision-making capacity must also be ensured (including the appointment of all 5 members). Not least in view of the planned modernisation and decentralisation of the application of EC anti-trust rules, efforts to further strengthen the enforcement record need to continue, giving priority to cases concerning the most serious distortions of competition, and imposing more deterrent sanctions. Increased awareness of the rules is important, especially among the business community, as well as training of the judiciary.

The state aid control legislation of 1998 contains the main principles of state aid control, and Latvia is also able to apply the *acquis* directly through the Europe Agreement. Moreover, a review of the state aid legislation, taking into account recent developments in the *acquis*, is under preparation. A regional aid map with maximum aid intensities of

50% for the whole country (as justified by GDP figures) is being applied, though still pending joint adoption in the Association Committee. As regards transparency, state aid reports have been submitted for the years up to 2000, which closely follow the methodology and presentation of the European Commission's survey on state aid in the EC and are of good quality. The State Aid Surveillance Commission, together with its reinforced secretariat within the Ministry of Finance, functions well. It has a proven track record of enforcement. Increased awareness of the rules is important, especially among the aid grantors, the business community and the judiciary.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia was making progress as regards alignment with the *acquis* in the field of anti-trust and state aid, though further efforts were required as regards state aid transparency.

Since the Opinion, Latvia has made steady progress in adopting anti-trust legislation, developing the Competition Council's administrative capacity and establishing an enforcement record, although further progress is still required. Steady progress has also been made in adopting state aid legislation and increasing the transparency of the system, as well as in developing the administrative capacity in the State Aid Surveillance Commission and its secretariat and establishing an enforcement record. Overall, on legislative alignment, administrative capacities and enforcement record Latvia is reasonably advanced. However, increased attention needs to be paid to the implementation of the legislative framework and the strengthening of administrative capacity in the anti-trust sector.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments taken and the requirements for sufficient legislative alignment, administrative capacity and enforcement record, arising from the negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on ensuring that it continues to update its alignment as the *acquis* in this area evolves and, most importantly, on continuing to develop a track record of proper application and enforcement of both anti-trust and state aid legislation. In particular, Latvia will need to make important efforts to strengthen its legal and administrative capacity in order to ensure an effective antitrust enforcement.

Chapter 7: Agriculture

Progress since the last Regular Report

Latvia has made further progress in the area of agriculture, both with aligning legislation and with strengthening administrative capacity. Progress has been more limited on border controls, animal waste and processing establishments. Agriculture in Latvia accounted for 4.7 % of gross value added in 2001 compared with 4.9 % in 2000¹⁵. Employment in

¹⁵ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

agriculture has declined considerably over recent years, and now accounts for 15.1 % of total employment¹⁶.

In 2001, overall agricultural trade³ between Latvia and the EC increased significantly, largely due to the “double-zero-agreements” to liberalise trade in agriculture. EC imports of agricultural products originating in Latvia increased by 43 % to € 53 million. EC exports to Latvia increased by 16 % to € 268 million. The trade balance in favour of the Community amounted to € 215 million compared to € 194 million in 2000. EC imports were dominated by dairy products. Miscellaneous edible preparations, tobacco, fruit and nuts, sugars and sugar confectionery were the main export goods from the EC.

In 2001, a total sum equivalent to LVL 24.14 million (€ 43.07 million) was allocated to agriculture (including rural development) from the central government budget. The share of support for agriculture and rural development in the budget is about 3%.

In the area of land reform, Latvia has continued to make some progress. Whereas registration in the Cadastre has been virtually complete for several years, registration in the Legal Register (Land Book) has continued, albeit at a slow pace. Latvia has started preparations for land reparcelling.

Horizontal issues

Latvia has made progress in its preparations for the future implementation of the *European Agricultural Guidance and Guarantee Fund (EAGGF)*. The Rural Support Service (RSS) of the Ministry of Agriculture was accredited as the SAPARD agency in December 2001 and has a good basis for building up the necessary functions to meet the EAGGF Guarantee and Guidance requirements (*see A.b – Relations between the European Union and Latvia*). In order to set up the paying agency in Latvia, a working group for merging of the Rural Support Service (RSS) and the Agricultural Market Intervention Agency (AMIA) has been established and the necessary legislative amendments were adopted in May 2002. In addition, 3 new structural units of the RSS became operational in January 2002: the EU direct support department, the EAGGF division within the finance department and the IACS division within the information department.

Regarding the *Integrated Administration and Control System (IACS)*, in December 2001 Latvia adopted an implementation regulation defining the main elements of IACS implementation in Latvia, such as the computerised database, land register, animal register and integrated control system. An amendment to this Regulation adopted in September 2002 defined the responsibilities of the Rural Support Service and the State Land Service for setting up the land register. Latvia intends to opt for the methodology of physical blocks to build its land parcel identification system, i.e. blocks of parcels delimited by permanent boundaries such as roads, rivers, forests, etc. Latvia already has aerial photographs covering its territory, with the exception of some border areas, which are covered by satellite images. In order to implement the system, preparatory work has

¹⁶ EUROSTAT Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture.

³ Source of trade figures: WTO definition of agricultural products, figures from EUROSTAT COMEXT (see U.E. 12/15: Commerce des produits agricoles 1998-2000, 1 Partie D.G. AGRI / G.2 Analyses quantitatives, prévisions, statistiques, études, 2001, pp. 10-57 et 86-89.)

started to set up the land parcel identification system and a pilot project has been prepared.

As regards *trade mechanisms*, a detailed action plan for the implementation of the Common Market Organisations has been prepared and presented to an inter-ministerial working group of the Ministry of Finance, the National Board of Customs and the Rural Support Service, responsible for the administration of trade mechanisms.

Regarding *quality policy*, preparatory work has been carried out regarding new legislation to establish a system similar to the EC system for protection of designations of origin, geographical indications and certificates of specific character.

No major developments can be reported on *organic farming*. A regulation concerning procedures for the setting up, maintenance and operation of the *Farm Accountancy Data Network (FADN)* was approved in July 2002 and designated the Latvian State Institute of Agrarian Economics as the Liaison Agency of the FADN. The regulation also sets up the National Committee for the Data Network responsible for the co-ordination and supervision of the FADN and communication with the EC.

Common Market Organisations (CMO)

Since last year's Regular Report, Latvia has made some progress on introducing a legal framework and administrative structures for the establishment of Common Market Organisations.

As regards the *administrative capacity* in this field, Latvia has continued to implement its action plan for the implementation of Common Market Organisations. Sector-by-sector competent authorities have been identified, measures, procedures and functions have been planned and estimations of necessary human resources have been prepared with a view to the implementation of the CAP in Latvia. In order to establish the administration system for CAP management mechanisms in Latvia, three new structural units of the Rural Support Service became operational in January 2002. In 2002, the number of staff in the Rural Support Service and respective budget appropriations have been increased to satisfy the growing need for administrative capacity required for the management and implementation of the different support schemes, including SAPARD. Latvia has taken some preparatory steps to develop its agricultural policy. A concept on necessary changes in the national legislation for the implementation of the EC Common Agricultural Policy has been elaborated and a ministerial working group is preparing the relevant legislation.

Preparations for implementing the CAP with regard to the systems of area payments have continued for cereals, vegetables and oilseeds and the introduction of an area payments system for grain was started in 2000-2001. In the field of *arable crops*, Latvia continued to apply a public storage scheme for cereals which has been further aligned to EC practices in the "Regulation on Grain Market Intervention for the period 2002-2003.

As regards the *sugar sector*, amendments to the Sugar Law were adopted in February 2002 as well as legislation regarding sugar production quotas and the state balance of sugar production and consumption. These are aimed at bringing Latvia's national quota system further in line with the EC quota system.

For *fruit and vegetables*, the functions of the responsible institutions have been determined during the reporting period (all administration of the system of producer

organisations will be done by the Rural Support Service, which will be the single EAGGF-Guarantee Section paying agency). Further elaboration of the regulations on fruit and vegetable producer organisations is needed.

Regarding *animal products*, in November 2001 Latvia adopted legislation on the handling of milk and dairy products, which provides for setting up a Milk Producers' Register, containing a system of detailed accounting of milk deliveries to dairies, which will serve as a basis for establishing and implementing the EC milk quota system. Legislative steps have been taken on labelling of beef and financial support to beef producers: a slaughter premium for adult male bovine animals and a suckler cow premium were assigned. No new developments have been reported in the *wine sector*.

Rural development and forestry

The most significant development in this area has been the accreditation of the Rural Support Service as the SAPARD agency in December 2001 (*see Section A.b. – Relations between the European Union and Latvia*). Measures supported include modernisation of agricultural machinery, equipment and construction of buildings, afforestation, development and diversification of economic activities. Latvia has a national scheme to promote organic farming, and has proposed additional pilot agri-environment measures, which will assist in the preparation of full-scale post-accession measures. Intensive consultations and social discussions are taking place regarding rural development measures in view of the elaboration of the Rural Development Plan.

Veterinary and phytosanitary issues, including food safety

During last year, Latvia continued to adopt legislation in the **veterinary** and **phytosanitary** sectors as well as in **food safety**. The Food and Veterinary Service continued restructuring and strengthened its capacity further.

Latvia has continued to align its legislation with the *acquis* in *animal welfare*, notably by adopting regulations on the welfare of pigs and calves and requirements for use, keeping, trade and killing of animals used for experimental and scientific purposes. Since January 2002 the Food and Veterinary Service is carrying out inspections on farm animal sheds and assessing their compliance with animal welfare requirements.

Regarding *animal health*, Latvia has adopted legislation concerning eradication and elimination procedures, prevention and combat of diseases and working conditions for veterinary examinations. Furthermore, instructions of the Food and Veterinary Service have been issued covering occurrence or suspicion of bovine spongiform encephalopathy (BSE), eradication of foot-and-mouth disease and the elimination of these and some other diseases. Latvia has joined the Animal Disease Notification System (ADNS).

The capacity of the administrative structures was reinforced over the last year. The number of inspectors was significantly increased compared with 2001. Since 2002, the Food and Veterinary Service has been carrying out control of the whole food chain. Particular progress has also been made in terms of training, including the establishment of a human resource and training programme and the installation of equipment.

As regards border inspection posts on external borders, the Sanitary Border Inspection of the Food and Veterinary Service has continued work to upgrade the Border Inspection

Posts which Latvia wishes to maintain after accession, in order to bring them up to the standard required by the *acquis*. Construction work has started on 3 out of the 7 long-term posts planned. The technical equipment of the Sanitary Border Inspection has been upgraded. A pre-audit has been carried out in the phytosanitary and management area of the Sanitary Border Inspection in order to prepare for its accreditation.

Latvia continues to prepare for participation in the computerised network linking veterinary authorities ANIMO, including provision of compatible technical equipment, and established a list of postal codes and files in December 2001 containing ANIMO contact points to be used for information exchange.

Regarding *public health protection*, Latvia has further aligned its legislation as regards requirements for production and placing on the market of milk, meat and fresh poultry and rabbit meat. In November 2001 Latvia adopted legislation on the handling of milk and dairy products relating to production, treatment, transport and processing which aim at bringing its legislation further in line with compulsory requirements on hygiene, quality and veterinary standards as well as requirements for packaging, accounting and the registration system. The upgrading of food-processing establishments has been progressing particularly in the dairy and fish sectors. Latvia has established annual state supervision and control programmes, which are being implemented by the Food and Veterinary Service. In addition to these activities, the Food and Veterinary Service has carried out assessments of all establishments involved in the food chain and has prepared modernisation plans together with each establishment.

As regards *animal waste treatment*, the policy document on Collection, Rendering and Disposal of Animal Waste adopted by the Latvian government in April 2002 provides for the establishment of high risk waste collection and treatment system under private ownership.

In the **phytosanitary** sector, progress was made in further aligning Latvia's legislation to the *acquis* as well as institutional strengthening. A phytosanitary survey plan has been elaborated for the year 2002 and an internal control plan for phytosanitary inspectors has been set up. Co-operation between the Plant Protection Service and the Sanitary Border Inspection of the Food and Veterinary Service was improved.

As regards *plant health (harmful organisms)* and *plant hygiene*, several instructions have been adopted laying down guidelines for control and eradication of harmful organisms and testing methods. Moreover, a plan for further implementation of the *acquis* granting authorisation of plant protection products has been finalised.

In March 2002, legislation was adopted to further align the implementing measures for plant passports to the *acquis*. The issuing of plant passports for all plants will start in January 2003. Until EU accession, they will be for use within Latvia only. The plant-health registration of producers and importers of particular plants and plant products has continued. So far, only a limited number of producers and importers have been registered.

Administrative structures for phytosanitary issues have been strengthened. The new structure of the State Plant Protection Service (SPPS) entered into force in March 2002. Its aim is to further rationalise the institution and to increase its effectiveness by separating control and surveillance of the implementation of legislation from co-ordination and planning. In addition, 7 regional offices have been created. As regards

staffing, 210 persons work in the state plant protection service, 50 in the central administration, 106 inspectors and 25 specialists in the regional offices and 26 staff in the laboratory.

In order to improve phytosanitary border controls, the Sanitary Border Inspection has started working on accreditation in the phytosanitary field according to the European Standard. Control procedures have been elaborated. Another positive development concerns the signature of an agreement on co-operation and exchange of information signed between the State Plant Protection Service and the State Plant Protection Service Division for Diagnostics of Plant Quarantine Organisms.

As regards **food safety** (*see also Chapter 1 - Free movement of goods*), there have been some developments regarding the institutions responsible for food safety inspections. In January 2001 the Food and Veterinary Service started operating as the sole institution responsible for control of the entire food chain. Co-operation between the Sanitary Border Inspection of the Food and Veterinary Service of the Ministry of Agriculture and the State Plant Protection Service has been improved with an inter-institutional agreement on co-operation and exchange of information. Work to improve co-operation among institutions involved in border inspections is ongoing.

The upgrading of food processing establishments, as referred to above, has been progressing particularly in the dairy and fish sectors. The Food and Veterinary Service carries out the assessment, supervision and control of establishments involved in the entire food chain in order to tackle this problem and upgrading plans for all establishments have been produced in order to be in compliance by the date of accession. However, no fully reliable classification of the establishments according to the severity of the deficiencies has been carried out.

BSE-related measures have been adopted and have been implemented and routine testing is being extended. However, further significant efforts are requested to meet EC standards.

Overall assessment

In the area of **horizontal measures**, preparatory work for the creation of the paying agency in Latvia is in place. Continued attention should be paid to the merger between the Rural Support Service (RSS) and the Agricultural Market Intervention Agency (AMIA) and its transformation from a SAPARD agency into the single paying agency which will be responsible for the management of *the Agriculture Guidance and Guarantee Funds (EAGGF)* upon accession. Latvia needs to address more swiftly and energetically the preparation for the *Integrated Administration and Control System (IACS)*, as its timetable appears very tight, and in particular completion of the strategy, completion of the land parcel system as well as digitisation. Very serious efforts are urgently needed in order for Latvia to be able to build up an operational IACS by accession. The necessary decisions must be taken immediately and the related funding put in place without delay if Latvia is to be in a position as of accession to administer and control efficiently the CAP aid-schemes. Further legislative work and preparation of administrative structures and procedures are necessary in the fields of *organic farming* and *quality policy*, where a clear definition of the role of the different institutions is needed, and the *Farm Accountancy Data Network (FADN)*.

As regards **Common Market Organisations**, Latvia now needs to take more decisive steps in terms of implementation of developed action plans for each market sector in order to prepare the necessary national legislation. Latvia already has some parallel mechanisms for some areas for which market organisations exist in the EU, including cereals and sugar. However, they need to be further aligned with EC requirements,

As regards administrative capacity, the newly established structure of the Rural Support Service needs to become operational and the remaining adjustments to the requirements of the *acquis* should be carried out. Special attention needs to be paid to the timely preparation of administrative structures and detailed descriptions of procedures for all measures. Training of staff in the competent institutions should continue.

Latvia is well advanced in building up administrative capacity for implementing **rural development** policies, as a result of the accreditation of the Rural Support Service as the SAPARD agency. Latvia should continue the development of its Rural Development Plan and of its Structural Funds' rural development priority.

Slow progress with *land reform* is still a strain on the development of the agricultural sector in Latvia, and on adequate identification of land for CAP purposes. While the Cadastre is virtually complete, registration in the Legal Register (Land Book) is progressing only slowly. Generally, with the exception of the part around and south of Riga, the land market in Latvia is not very active.

Concerning the **veterinary field**, while legislation adopted so far constitutes a good basis, Latvia needs to significantly speed up the process of transposing and implementing the *acquis* in this area.

Regarding *animal welfare*, Latvian legislation has been largely aligned to the *acquis* requirements concerning general welfare. This process needs to be completed. Further alignment work is necessary in the field of *animal health*, where Latvia should also make further efforts to ensure effective implementation.

The situation regarding controls at border inspection posts requires special attention as to the general hygiene situation and the quality of controls carried out. Latvia needs to increase its efforts in order to comply with agreed timetables for completion of the construction of its 7 long-term border inspection posts. Preparation for participation in ANIMO should continue.

With regard to *public health protection*, the upgrading of processing establishments in the dairy and fish sectors is rather advanced, with 16 establishments approved in total, but further efforts are required, particularly in respect of meat-processing establishments.

As regards *animal waste treatment*, Latvia needs to ensure implementation of its newly adopted legislation on collection, rendering and disposal of animal waste. Preparation for the establishment of a waste collection system for the treatment of high-risk animal waste upon accession must continue. Very serious efforts are needed to ensure that the system can be operational as scheduled.

In the field of *animal nutrition*, framework legislation, which aims at transposing the bulk of the relevant Community legislation remains to be adopted.

In the **phytosanitary sector**, transposition and implementation of legislation is relatively advanced, in particular legislation on plant passports. This process remains to be completed. Further harmonisation is needed, particularly with regard to seed and propagating material. Registration of producers and importers should be speeded up and completed well before accession, being one of the cornerstones of the EC *plant health* system.

The changes made to the administrative structures constitute a very good step towards guaranteeing the smooth functioning of the State Plant Protection Service (SPPS). Latvia should now ensure the effective enforcement of this service, including the recently established regional structures. Work of the State Border Inspectorate on accreditation as well as on effective implementation of established control procedures should continue. In particular, further staff training is needed and laboratory capacity should be further improved.

As regards **food safety** (*see also Chapter 1 - Free movement of goods*), as is mentioned above, considerable progress has been made, particularly regarding coverage of controls in the food sector, the preparation for the upgrading and control of food establishments and the increase in measures to deal with BSE.

The reorganisation of some of the bodies dealing with food safety i.e. the Food and Veterinary Service, increased administrative capacity for supervision of modernisation plans and laboratory equipment, and improved co-operation among the authorities involved should further improve effectiveness in this area.

Conclusion

In its 1997 Opinion, the Commission concluded that substantial efforts to align with the *acquis* were still necessary, although progress had been made in adopting the measures mentioned in the Commission's White Paper of 1995 on the Internal Market. The Commission added that particular efforts were needed on: the implementation and enforcement of veterinary and phytosanitary requirements and upgrading establishments to meet EC standards (an aspect of particular importance with regard to the inspection and control arrangements that protect the EU's external borders); strengthening administrative structures to ensure the necessary capacity to implement and enforce CAP policy instruments, including the import arrangements; and further restructuring of the agri-food sector to improve its competitive capacity. The Commission further pointed out that since only a limited number of the mechanisms of the Common Agricultural Policy existed at that point in time, fundamental reform of policy would be needed, and a substantial effort would be necessary to prepare for accession in the medium term.

Since the Opinion, Latvia has made considerable progress towards alignment with the EC agricultural *acquis*, in particular over the past two years and, more recently, has progressed with developing the necessary administrative capacity to implement the *acquis* in this area. As regards preparations to apply the Common Agricultural Policy, some preparatory steps have been taken in terms of administrative structures for the necessary legislative alignment, but considerable legislative work lies ahead and only limited progress has been made with the actual implementation of the CAP. Transposition of legislation is proceeding well. Administrative structures are partly in place and further efforts are needed to strengthen administrative capacity.

Negotiations on this chapter continue although all negotiation issues in the veterinary and phytosanitary fields have been clarified. Latvia has been granted a transitional arrangement for public health in 11 milk processing establishments, 29 fish processing establishments and 77 meat establishments (until three years after the date of accession). Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on finalising alignment; further reinforcing the administrative capacity to implement and enforce the *acquis* of the Common Agricultural Policy in particular for the paying agency, the Integrated Administration and Control System and the Common Market Organisation mechanisms, and especially in the veterinary field and that of food safety; ensuring that establishments are duly upgraded to meet Community Standards; and concluding the process of agricultural land reform.

Chapter 8: Fisheries

Progress since the last Regular Report

Latvia has continued to make progress in alignment with the *acquis*, especially as regards resource management, inspection and control.

As regards institutional issues and administrative capacity, the Department of Fish Resources in the Ministry of Environment was abolished in January 2002. The Ministry of Agriculture is responsible for fisheries policy preparation and implementation. The Fisheries Department now employs 25 civil servants. Fisheries administration in Latvia is also represented by the National Board on Fisheries, which operates under the supervision of the Ministry of Agriculture.

In the field of **resource management, inspection and control**, legislation was further harmonised with the *acquis* requirements through the adoption of amendments to the Law on Fisheries and in particular the adoption of legislation on commercial fishing in the territorial waters and economic zones in November 2001.

As regards administrative capacity in this area, the National Board of Fisheries has the responsibility for overall management of the fisheries sector, quota management, sector development strategy and legal acts and regulations in fisheries, including the implementation of the *acquis*. In 2002, two additional employees were recruited with responsibility for structural programming and the integrated control and information system.

The capacity of the Marine Environmental Board of the Ministry of Environmental Protection and Regional Development, which carries out control and enforcement in Latvian waters, has been strengthened through additional staffing as well as enhanced training of inspectors and improved equipment. In 2001, 80 inspection trips were carried out outside coastal waters. 11 inspectors are responsible for fish landing controls in ports.

Some progress has been made concerning the legal base necessary for implementing **structural actions** in fisheries. In December 2001, the Rural Support Service was accredited as the SAPARD Agency, with the task of improving agricultural and fisheries product processing and marketing.

The Latvian Vessel Register is part of the Maritime Administration of the Ministry of Transport and covers all Latvian vessels, including fishing vessels, with an engine power of 55 kW or more. The new maritime code requires registration of coastal fishing vessels under this threshold in order to meet EC requirements. So far, 70% of all fishing vessels have been re-measured according to the *acquis* requirements. Regarding **market policy**, amendments to the Food Circulation Monitoring Law were adopted in December 2001, stipulating that the Food Veterinary Service monitors and controls food producing companies and the food circulation process, including trade in fish and fish products.

As regards **state aid to the fisheries sector**, there are no new developments to report.

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

Overall assessment

Concerning resource management, inspection and control, legislative alignment needs to be completed. Regarding administrative capacity, the National Board of Fisheries should be able to deploy its capacity more effectively through greater delegation of responsibilities and clearer distribution of tasks. The Marine Environmental Board is currently inspecting 90% of landings, thereby not allowing for a thorough investigation and the Latvian Fisheries Institute still lacks funds.

All Latvian vessels fishing in EU waters are already equipped with satellite tracking devices.

As regards structural actions, these are currently based on annually revised development programmes concerning the fishing fleet, the processing industry and fisheries education and science under the National Development Programmes. Two programmes are under preparation in this context. However, further progress remains to be made with regards to structural policy for the fisheries sector. The establishment of institutional arrangements required for programming, implementation, financial control, monitoring and evaluation of structural funds need to be accelerated. Early establishment would facilitate smooth implementation of the SAPARD programme as far as fisheries are concerned. Preparation of programmes for structural actions should be enhanced.

While developments regarding fleet registration appear satisfactory, there is still a need for further amendment of the legal framework of the fishing vessel register and the adoption of regulations on safety requirements (including external marketing requirements). Re-measurement according to the requirements of the *acquis* is well under way.

Regarding market policy, according to the implementation plan of June 2001, market intervention mechanisms still have to be developed. Full legislative harmonisation requires the adoption of regulations on marketing of fisheries and aquaculture products in line with the *acquis*.

Producers' organisations have not yet been established.

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

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

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

Conclusion

In its 1997 Opinion, the Commission concluded that the process of modernisation and *acquis* implementation would require significant efforts and that in the medium term the fishery sector did not appear to pose any major problem.

Since the opinion, Latvia has made progress, in particular in terms of legislative alignment in the field of resource management, inspection and control. Latvia's legislation has been aligned to a reasonable extent, although there are gaps notably as regards structural actions and market policy. The administrative structures have been partially established.

Negotiations on this chapter have been provisionally closed. Latvia has been granted a specific management regime for the entire Gulf of Riga, and the inclusion of sprat (*Sprattus sprattus*) of the Baltic Region into the list of species that are subject to management measures under the Common Fisheries Policy. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on further reinforcing administrative capacity and ensuring sufficient funding. Further efforts are needed to complete alignment, notably concerning structural actions (vessel registration and safety requirements) and market policy (regulations on marketing of fishery and aquaculture products).

Chapter 9: Transport policy

Progress since the last Regular Report

During the last year, Latvia has made progress in aligning its legislation with the *acquis*, in particular in the fields of road transport. As regards implementation and enforcement, the strengthening of the administrative capacity of the Road Transport Administration has been put on track. On maritime safety, the detention rate of Latvian flag vessels continues to improve.

As concerns **Trans-European Transport Networks**, during last year investments in the main transport infrastructure corridors were reported to be €121 million, of which about 26 % were covered by the national budget. Emphasis has been put on the rail network. The implementation of the first stage of the "Via Baltica" project was completed in November 2001.

With regard to **land transport**, legal alignment has progressed in the *road transport sector*. Latvia has fully aligned with the EC rules on weights and dimensions of vehicles and has continued to harmonize its legislation on the transport of dangerous goods. Latvia has also aligned with driving times and rest period rules and has provided for the installation of tachographs. In May 2002, the relevant road framework legislation was amended, providing the basis for completion of legal alignment with the *acquis* through the adoption of implementing legislation. In April 2002, Latvia ratified the INTERBUS Agreement on the international occasional carriage of passengers by coach and bus. Concerning administrative capacity in this area, the Road Transport Administration was slightly strengthened with additional staff. In June 2002 the Government adopted a 'Concept on Control in Road Transport', establishing that the Road Transport Administration will be split into a Road Transport Inspectorate, responsible for checks in the road transport sector, and a Road Transport Agency, which will retain the function of licensing transport operators. It also makes provision for upgrading the technical equipment of control units (portable computers, communication devices, and an additional mobile weighing unit).

On *railways*, in the framework of the restructuring of the Joint Stock Company "Latvian Railways", a separate Passenger Transport Operator for inland transport, the subsidiary Joint Stock Company "Passenger Train", was established in January 2002. No further developments can be reported.

As to *inland waterways transport*, in June 2002 legislation was adopted to ensure recognition of boatmasters' certificates issued by other Member States.

No new developments are to be reported in the area of *combined transport* other than the adoption of the amendments to the Law on Carriage by Road.

Concerning **air transport**, Latvia had already aligned its legislation with a substantial part of the aviation *acquis* and in May 2002 amendments to the Law on Aviation were adopted transposing the computerised reservation system requirements.

In the area of **maritime transport**, in November 2001, Latvia acceded to the 1974 Athens Convention relating to the carriage of passengers and their Luggage by Sea and its Protocol of 1976, and in February 2002 to the 1924 International Convention for the Unification of Certain Rules relating to Bills of Lading, and its Protocol of 1968 and Protocol of 1979.

Concerning *maritime safety* structures, in January 2002, as a result of the restructuring of the Latvian Maritime Administration, the Maritime Rescue Co-ordination Centre was transferred to the Latvian Navy (Coast Guard) of the Ministry of Defence. At present there are 108 employees in the Maritime Administration of Latvia. 14 inspectors in the Maritime Safety Inspectorate of the Latvian Maritime Administration perform the Flag State and Port State inspections.

According to 2001 statistics under the Paris Memorandum of Understanding, the percentage of Latvian flag vessels detained following Port State control was 5%, a further decrease compared to 7.6 % in 2000 and 14.6% in 1999. This compares with an average for EU-flagged vessels of 3.14 % in 2001. In May 2002 Latvia became a co-operative member of the Paris Memorandum of Understanding on Port State control.

Overall assessment

As regards Trans-European Transport Networks, Latvia should continue with the further modernisation and development of both priority transport infrastructure along transit corridor I, and the main transport infrastructure network. Special emphasis should be given to ensuring the necessary administrative capacity (both in qualitative and quantitative terms) to prepare for the significant investments that will be needed in road and rail infrastructure.

In the road sector Latvia is well advanced in terms of legal alignment with the relevant *acquis*. Further efforts are still to be made in the transposition of technical rules (speed limitation devices, driving licenses) and the fiscal *acquis*, as well as in the implementation of social rules (admission to the occupation, and driving times and rest periods) particularly in the domestic sector. On the administrative side, it is now important that the Concept on Control in Road Transport is turned into concrete action to improve controlling capacity and reform the institutions responsible for control of road transport operations. The ensuing institutional reform of the present road authorities has to meet the need for an operational and efficient structure, with adequate financial means and significantly increased controlling capacity, covering also control at premises.

Regarding rail transport, considerable further efforts are needed to allow for implementation of the revised railway *acquis*. Legislative alignment also needs to be completed as regards requirements on interoperability of both high-speed train systems and conventional railways, and in this context particular attention has to be paid to the criteria for appointing the notified bodies. The restructuring and modernisation of the sector should continue. In the framework of the restructuring of the Joint Stock Company "Latvian Railway", the creation of a number of separate companies (infrastructure manager, freight operator) is pending. The capacity of the technical railway inspectorate, the regulator and other railway administrations needs to be strengthened.

Even though inland waterways in Latvia are of limited local importance, Latvia needs to align its legislation with the remaining relevant *acquis*.

On combined transport, legal alignment needs to be completed.

As regards air transport, the legislative framework in this sector is largely aligned with EC requirements; however, the legal basis and the status of the independent aviation accident investigation body are still pending and its administrative capacity needs strengthening. Latvia should continue to progressively incorporate the Joint Aviation Requirements.

For maritime transport, the adoption of the two framework laws and of the ensuing implementing legislation are still pending. On maritime safety, there is already alignment or partial alignment in the area of reporting requirements for ships carrying dangerous goods, reduced charges for vessels with segregated ballast tanks, passenger ship safety and Port State control. Further legislative work is needed on Flag State inspection, classification societies and marine equipment measures. On the administrative side, measures should be taken to strengthen administrative capacity in the field of maritime transport safety in order to further improve the Flag State performance of the Latvian fleet.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia was making noteworthy progress in assimilating the *acquis* in the transport field, particularly that of air transport. Provided efforts (also as regards the effective implementation of the *acquis*) were made in the goods-by-road, (access to profession, weights and sizes, road tax), shipping (safety) and rail (public service and standardisation of accounting procedures) sectors, the transport industry was unlikely to pose any major difficulties as regards the assimilation of the *acquis* relating to the single market. By contrast, Latvia was advised to improve its administrative structures, including inspection bodies such as those responsible for safety, as soon as possible.

Since the Opinion, Latvia has made steady progress in aligning legislation. Its legislation in the transport sector is now to a great extent in line with the EC *acquis*; the relevant framework laws (with the exception of maritime transport) are in place and only a limited amount of implementing legislation remains to be put into practice. However, implementation of the maritime safety *acquis* needs continued attention. In addition, the administrative capacity is being strengthened.

Negotiations on this chapter have been provisionally closed. Latvia has been granted transitional arrangements regarding the introduction of the financial standing criterion for domestic road transport operators (until 31 December 2006) and the installation of tachographs for vehicles registered before 1 January 2001 and exclusively operating on the domestic market (until 31 December 2005). Latvia has agreed to a transitional arrangement put forward by the EU concerning the gradual reciprocal access to the cabotage market in the road haulage sector. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts should now focus on: accomplishing transposition and implementation of the fiscal and social/technical *acquis* in the road sector, the further legislative alignment in the rail and maritime sector and strengthening the administrative capacity in road, rail and air transport. Particular attention will need to be paid to further strengthening the administrative capacity in the field of maritime transport safety and improving the flag state performance of the Latvian fleet.

Chapter 10: Taxation

Progress since the last Regular Report

Since the last Regular Report, Latvia has made progress with aligning its tax legislation with the *acquis* in the area of VAT.

In the area of **indirect taxation**, as regards VAT, amendments to the Law on Value Added Tax were adopted in November 2001. These amendments will introduce a reduced VAT rate on the supply of goods and services that were previously exempt in contradiction with EC VAT legislation. The amendments also introduce a VAT refund scheme for foreign taxable persons not established in Latvia. However, these amendments will only enter into force as of January 2003. In the field of *excise duties*, no further developments as regards the alignment of excise legislation are to be reported.

No progress can be reported on **direct taxation and administrative co-operation and mutual assistance**.

Since last year's Regular Report, some further steps have been taken to reform and strengthen Latvia's tax administration. In December 2001, the State Revenue Service (SRS) approved the Tax Administration Strategy for 2002-2004. The ongoing introduction of the three level organisational structure has resulted in the establishment of 5 regional offices.

Some progress has been made with improving taxpayer compliance. Improvements in the productivity of VAT audits have led to an increase of 19 % in the amounts collected per audit. The information base for tax audits regarding bankruptcy cases has improved and some measures have been taken to improve the arrears enforcement methodology.

In order to improve the quality of services to the public, two new taxpayers' service halls (27 in total) were opened and a number of other activities were carried out to improve information available to taxpayers. The expansion of electronic filing practice has continued and taxpayers may submit declarations and statements electronically to the SRS. A data warehouse analysis system was launched in 2001 in order to improve tax control work.

Since last years' Regular Report, new units and sectors have been established in the Financial Police Department at the central tax administration and new departments have been created at the regional offices in order to increase the capacity of the Latvian State Revenue Service when fighting against financial crimes.

Overall assessment

Regarding indirect taxation and alignment of VAT legislation, further alignment is necessary, in particular with regard to intra-Community trade.

Further alignment is also needed in excise legislation in order to introduce the combined rate of specific duty and ad valorem duty for cigarettes. In addition, the excise duty rates on certain mineral oils - gas oil, kerosene and heavy fuel oil – as well as that on beer should be increased in order to reach the EC minimum rates.

Concerning direct taxation, the Latvian legislation needs to align further with that of the *acquis*. Legislation will have to be reviewed in order to eliminate potentially harmful tax measures, so as to comply with the Code of Conduct for Business Taxation to the same extent as current Member States upon accession. The legislation on Special Economic Zones and Free Ports should also be brought into line with the tax *acquis*, notably with the imposition of VAT on supplies of goods, and of excise tax on fuel consumed in free zones, as well as with the Code of Conduct for Business Taxation.

Further efforts are needed in order to modernise and strengthen the State Revenue Service. The organisation of the State Revenue Service should be further streamlined and the introduction of a three-level organisational structure should be completed. Appeal procedures should also be strengthened according to the existing plans.

Regarding information technology and interconnectivity, urgent measures need to be taken to complete alignment. The understanding of the technical details of functional specifications of the VAT Information Exchange system (VIES) should be improved. In

general, preparations for the establishment of the Central Liaison Office (CLO) and the VIES should be accelerated.

Conclusion

In its 1997 Opinion, the Commission concluded that the *acquis* concerning direct taxation should present no significant difficulties, and that where indirect taxation was concerned, a considerable effort would be required if Latvia was to comply with the *acquis* on VAT and excise duties in the medium term. The Commission added that it should be possible for Latvia to start participating in mutual assistance as the tax administration developed its expertise in this respect.

Since the Opinion, and especially over the last two years, Latvia has made significant progress in aligning with the EC *acquis* on taxation. Latvia has also made progress with developing the necessary administrative capacity to implement the *acquis* in this area, but the organisational restructuring which is underway represents a major challenge. Latvia's level of alignment with the taxation *acquis* has reached a reasonable degree although a number of weaknesses remain to be addressed. Its implementation capacity is partly hampered by the delays in information technology and interconnectivity. This needs to be urgently addressed.

Negotiations on this chapter have been provisionally closed. Latvia has been granted, for an indefinite period of time, the right to apply a VAT registration and exemption threshold of LVL 10 000 (€ 17 857) for small and medium-sized enterprises; a technical transitional period of one year for the purpose of applying, once a Member State, for a derogation for simplified procedures on VAT on timber transactions; and a transitional period until 31 December 2009 in order to reach the EC minimum excise duty levels on cigarettes. In addition, Latvia has been granted specific arrangements to continue VAT exemption with credit for input tax on international passenger transport and without credit for input tax on services supplied by authors, artists and performers. Latvia is generally meeting the commitments it has made in the context of the accession negotiations.

In order to be ready for membership, Latvia should focus further efforts on completing transposition - except for areas where transitional arrangements have been agreed - in the areas of indirect and direct taxation, including intra-Community transactions, and on further pursuing the measures taken to modernise and reinforce the tax administration. Latvia should step up its ongoing legislative work, and urgently speed up its preparations for electronic interconnectivity.

Chapter 11: Economic and Monetary Union

Progress since the last Regular Report

A detailed assessment of the various aspects of Latvia's economic policy has been given above, in the Chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis* - as defined by Title VII of the EC Treaty and the other relevant texts - which candidate countries should implement before accession, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the

public sector to financial institutions, and the independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 - Free movement of capital*.

Since the last Regular Report, some progress was made in the adoption of the EMU-related *acquis*.

Alignment concerning **prohibition of direct public sector financing** by the Central Bank had already been achieved in 2001.

As regards **privileged access of the public sector to financial institutions**, no legislative developments took place on private pension funds concerning rules for investing pension capital.

Since the last Regular Report, new legislation has been adopted with amendments to the law on the Bank of Latvia in June 2002 which aim at further alignment with the *acquis* concerning the requirements for the **independence of the Central Bank**, particularly regarding grounds for dismissal of members of the board.

Overall assessment

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

As regards privileged access of the public sector to financial institutions, further changes to Latvian legislation on private pension funds concerning rules for investing pension capital will be necessary. This concerns mainly the law on Private Pension Funds, which requires further alignment.

In the area of independence of the Central Bank, a high degree of compliance with the *acquis* has been achieved.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia's participation in the third stage of EMU as a non-participant in the euro area would pose problems in the medium term. It added that the provisions and the practice of the central bank's budget deficit financing were not yet fully compatible with EC rules.

Since the Opinion, steps forward have been taken and a high level of alignment with the EMU-related *acquis* has been achieved and the administrative capacity has been put in place.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on aligning the rules for investing pension capital.

Chapter 12: Statistics

Progress since the last Regular Report

Latvia has made very good progress over the past year in this area resulting in improved infrastructure and compliance with EC statistical requirements.

As regards **statistical infrastructure**, over the past year, the Latvian Central Statistical Bureau (CSB) has significantly improved co-operation with other institutions with a view to a more effective use of administrative sources for the production of statistics as well as further compliance with the *acquis*. In 2002, the budget for the CSB was increased significantly.

Regarding **classifications**, the Latvian Statistical Bureau (CSB) was appointed as the main co-ordinating agency for classifications in the country.

Concerning **demographic and social statistics**, the final results of the Census of Population and Housing were published in April 2002.

Statistics at **regional** level have a high standard. During the past year regional data have greatly improved as a result of the implementation of the population and agricultural censuses. Some indicators are available also at level 4 and 5.

Macro-economic statistics are produced on the basis of the European System of Accounts (ESA-95) methodology at a high level of compliance. The CSB is working on the creation of an integrated system of annual accounts and supply-use tables. Quarterly national accounts were further improved. Latvia is a member of the European comparison programme, which supplies the data for the compilation of Purchasing Power Standards. As regards Government finance statistics, the CSB's co-operation with other institutions has improved. The CSB has also compiled first sets of statistics on deficit and debt.

Monetary, financial and Balance of Payments statistics are compiled by the Bank of Latvia and considerably improved in 2001 also as a result of an increased statistics budget. The take-over of Balance of Payments statistics by the Bank of Latvia from the CSB was smooth and successful and key Balance of Payments indicators are now available on a monthly basis.

Structural **business statistics** are very broadly based and benefit from high response rates. Short-term business statistics have been further developed.

Large parts of **environment statistics** have to be compiled on the basis of administrative data provided by other institutions. During the past year the CSB has improved the production of statistics in this field.

For **external trade**, work concentrated on the preparations for the INTRASTAT system, which monitors trade between Member States. The activities in this area have started in good time and have been managed effectively until now.

In the field of **agricultural statistics**, Latvia conducted an agricultural census in 2001, which will greatly improve the quality of agricultural statistics in the near future, in particular through an update of the statistical farm register. Economic accounts for

agriculture (EAA) are compiled together with the Ministry of Agriculture on the basis of the EAA-97 methodology.

Overall assessment

The recent reinforcement of administrative capacity, increased co-operation, and the experience gained recently constitute a very good basis for *acquis* implementation. However, particular efforts are needed, especially regarding the structural adaptations that lie ahead of the CSB.

Regarding sectoral statistics, further efforts are needed on upgrading Government deficit and debt statistics, facilitating the observation of local kind of activity units and further improving the use of administrative sources for the production of statistics. Statistics in the field of the environment need further improvement, as do forestry statistics, where further alignment to international methodology is necessary, in particular as regards ownership and regional breakdown. The implementation of INTRASTAT will require substantial efforts and direct access by the CSB to VAT data for ensuring reliability.

Building up general administrative capacity remains a priority. Whilst significant investments took place at the CSB, further training is needed, in particular for staff at regional level.

While the Government has demonstrated its willingness to address the resource problems of the CSB through a considerable increase of the basic budget in 2002, staff turnover in some important departments remains comparatively high. The reorganisation of the regional network and the creation of the professional interviewers' service should be completed urgently. The still existing legal incoherence between the statistical law, the data protection law and tax legislation should be dealt with in order to further improve the current situation. Better access of the CSB to individual tax data would further facilitate the production of statistics.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia would need to make a sustained effort to comply with EC requirements.

Since the Opinion, Latvia has made very good progress in almost all areas of statistics, in particular by conducting a population and housing census as well as an agricultural census during the last two years. Overall, Latvia is quite advanced in this field.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on further improvements for implementation of the *acquis* on sectoral statistics, adequate budgeting and increasing administrative capacity, including effective use of administrative resources and structural adaptations at all levels.

Chapter 13: Social policy and employment

Progress since the last Regular Report

Since the last Regular Report further progress has been made in aligning with the *acquis*.

In the area of **labour law**, the new Labour Code transposing the majority of the labour law *acquis* entered into force in June 2002. In December 2001, the Law on the Protection of Employees in the Event of Insolvency of their Employer, aimed at transposing the relevant *acquis*, was adopted. Concerning the transposition of the *acquis* on the protection of young people at work, implementing legislation was approved in January and May 2002. The amendments to the Law on the Insolvency of Enterprises and Enterprises Societies have been adopted in June 2002. The Law on the State Labour Inspectorate, which entered into force in January 2002, clarifies and strengthens the legal status, tasks and functions of the State Labour Inspectorate. The Inspectorate has been designated as the liaison office under the *acquis* on posting of workers and as the competent public authority required under the Directives on collective redundancies. In 2002 the Inspectorate organised training sessions on the new Labour Code for trainers and judges.

The task of implementing the Law on the Protection of Employees in the Event of Insolvency of their Employer was attributed to the Insolvency Administration operational as of February 2002. The Administration will combine the functions of the guarantee institution and the supervision of insolvency process.

Concerning **equal treatment** for women and men, efforts have focussed on promoting implementation of the Concept of Gender Equality, which was adopted in October 2001. In March 2002, the accompanying Action Plan for the implementation of the concept in 2002 was approved. It foresees the elaboration of the National Gender Equality Strategy 2003-2007. With the decision in February 2002 to establish the Gender Equality Council, a co-ordination and advisory body has been created. A training programme on gender equality for civil servants was elaborated in early 2002 and courses at the Latvian School of Administration have started. In 2002, the second court case concerning gender discrimination in Latvia ended in favour of the claimant (*see also B.1. – Political criteria*).

With regard to **health and safety**, the Law on Labour Protection, which aims at transposing the framework Directive on health and safety at work, came into force in January 2002. Implementing legislation transposing Directives on labour protection when working with carcinogenic substances at work and labour protection requirements at workplaces have also been adopted since the last Regular Report. In December 2001, in accordance with the EC principles of occupational health and safety, the new State Labour Inspectorate Law was adopted. To strengthen the administrative capacity of the State Labour Inspectorate, an active training policy has been pursued. The new training programme for occupational safety and health experts was accepted in March 2002. The professional standards for occupational safety and health experts and senior experts have been elaborated.

The tripartite structure still continued to dominate the **social dialogue**. The acceptance and understanding of the importance of bipartite social dialogue remain weak. The number of collective agreements, covering a small percentage of the labour force, has not

significantly risen since the last Regular Report. In 2001, 2 287 collective agreements were concluded, compared to 2 057 in 2000. The collective agreements concluded in 2001 cover 203 374 employees (203 725 in 2000). 2 167 of the collective agreements were concluded at company level, while the number of collective agreements at branch level (17) was lower than in previous years.

Efforts to strengthen the **public health** system have focused on implementation of the Public Health Strategy adopted in 2001. In the context of this strategy, in January 2002, it was decided to re-organise the National Environmental Health Centre and its regional branches into a Public Health Agency. The new institution is responsible for implementation of the State's public health policy and for epidemiological safety. In the domain of communicable disease surveillance, control legislation was adopted to align with the *acquis*.

An organised system of epidemiological surveillance and control of infectious diseases with clearly defined competence and responsibility of the institutions involved has been developed. A computer network for epidemiological surveillance of infectious diseases is being developed.

The Annual Social Report 2001 published by the Ministry of Welfare points out that 3.5% of GDP was allocated to the health sector. This marks a further decrease, both in absolute terms and in relation to GDP, since the previous year (5.5% in 2000). Latvia is now even further from the minimum level of 7% in the EU countries.

As regards **employment policy**, Latvia and the European Commission have launched an employment policy review in the form of a Joint Assessment of Employment Priorities in Latvia (JAP), with a view to examining the progress made by Latvia in adapting its employment system so as to be able to implement the European Employment Strategy. This document, still to be finalised, will lay down the key priorities and tasks for the pre-accession period. Achievement of a consensus on such priorities and tasks is proving difficult to reach.

The unemployment rate has decreased, to 13.1 % in 2001 compared to 14.2% in 2000. Unemployment rates for both men and women are decreasing and reached 14.6% for men and 11.5% for women. The high and increasing long-term unemployment at 59% is of great concern. Efforts have been made to increase the number of persons covered by active labour market measures. In 2001, 25% of registered unemployed persons were involved in active labour market measures (training, courses, and temporary public works). Given that such measures are only available to registered unemployed persons, care should be taken to ensure that registration becomes as widespread as possible, if necessary by identifying and removing any possible obstacles. The modernisation of the Public Employment Services and enhancement to the IT services should continue with a view to further progress in that regard.

In 2001, the administrative capacity of the State Employment Service was upgraded with the supply of computer hardware to the Board of the Service and its regional offices.

The Government decided in February 2002 on the designation of the main institutions to be involved in Structural Funds management. The Ministry of Finance is designated as the Managing Authority of the Structural Funds, including the European Social Fund (ESF). The State Treasury, a separate legal entity within the Ministry of Finance, is

appointed as Paying Authority. The Ministry of Welfare will be the partner institution to the Managing Authority for the ESF. The intermediate body/ies will be nominated later.

As a follow-up to the Gothenburg European Council, where the EU invited the candidate countries to translate the EU objectives into their national policies, the Commission and Latvia have initiated a joint co-operation exercise to prepare for future participation in the EU **social inclusion** process after accession. This exercise consists in joint identification of the social exclusion challenges and relevant policy responses. In this context, the Central Statistical Bureau of Latvia co-operates with Eurostat to produce data on poverty and social exclusion. Preliminary figures suggest that overall income disparities seem to be rather high, as is the poverty rate after social transfers (16.8%).

As regards other areas of **social protection**, since the last Regular Report implementation of the pension reform has remained the focus of Latvian efforts in this field. In December 2001, Parliament amended the Law on State Pensions. The amendments set the minimum pension that is linked to a person's working record and prescribe a new formula for the indexation of low pensions. In March 2002 the Government accepted the Concept on the Development of Providing Social Assistance Services. The Concept envisages changes in the financing system of social assistance that would facilitate the development of alternative social care services by municipalities. The financing principle "money follows the client" is implemented in social institutions belonging to municipalities.

The new Labour Law in force since June 2002 contains provisions banning discrimination in employment on the grounds covered by Article 13 of the EC Treaty, with the exception of sexual orientation. Since the last Regular Report no further legislative progress concerning the implementation of the two directives on **anti-discrimination** has been made.

An inter-institutional working group with the task of evaluating alignment with the Directives was established in February 2002 (*see also Section B.1.2. - Human rights and the protection of minorities*).

Overall assessment

In the area of labour law, alignment is well advanced but some efforts are still required. In particular, Latvia has to transpose Directives related to the involvement of workers in the European Company and regarding information and consultation of workers. Also amendments to the Labour Dispute Law still have to be adopted.

Effective implementation and enforcement of the *acquis* should be a priority and the State Labour Inspectorate needs to be strengthened. An independent guarantee fund for employees in the case of employer's insolvency has to be established. The legal status of the Insolvency Administration needs confirmation.

The enforcement of the *acquis* in the field of equal treatment for women and men should be improved. The Action Programme for the implementation of the Concept Paper on Gender Equality remains to be adopted and implemented.

Alignment with the *acquis* on health and safety at work is well advanced, but still has to be completed, and the necessary implementing legislation must be adopted. The State Labour Inspectorate should be reinforced.

The reform of the public health sector should continue. The health status of the population is still much lower than the EU average, and progress is needed to improve it. The incidence of some communicable diseases gives rise to concern. Public expenditure on health care should be considerably increased. The transposition of the current tobacco legislation has not been completed yet and no specific time schedule has been made in this respect. The Action Plan to ensure the implementation of the Public Health Strategy is still pending. New legislation, in particular rules on communicable diseases notification, surveillance and reporting forms is required. The list of notifiable diseases should be revised to include all diseases listed in the EC Decisions, and should include EC case definitions. In addition, training in modern epidemiology is needed, specifically on analytical methods, field investigation, data protection and management. Participation of Latvia in EC disease-specific networks needs to be accelerated. Moreover, laboratory equipment, procedures and protocols need to be upgraded at national and regional level. In particular, a national reference virological laboratory should be established. Generally, effective implementation of the *acquis* needs to be ensured.

The bipartite social dialogue is lagging behind. Sectoral and enterprise level social dialogue should be more effectively promoted and its coverage extended, both in terms of enterprises and percentage of the labour force covered by collective agreements. The adoption of the Labour Dispute Law would represent a major step in the promotion of this dialogue. In addition, Latvia should enhance activities to develop and systematise the information available to social partners and increase training of all parties involved.

Regarding employment policy, the Joint Assessment of the Employment Policy Priorities of Latvia (JAP) will represent an important step in preparation for future participation in the European Employment Strategy upon accession. It is important to ensure effective monitoring of the phasing-in of the priorities and commitments agreed in the JAP. There is a need to focus on more active and preventive strategy and to develop and examine the benefit systems to enhance the incentives for unemployed and inactive people to take up jobs.

Concerning the European Social Fund (ESF), implementing legislation on the administration of the Fund remains to be adopted. The Ministry of Welfare needs to further strengthen its administrative capacity for programming, implementation and monitoring. Reinforced administrative capacities also need to be built up in the intermediate bodies of the ESF at the national and regional levels to guarantee proper implementation of the funds at the project level. Division of competencies among institutions of ESF management and development of a co-ordination model should be established.

A national integrated strategy on promoting social inclusion, taking into account the EU objectives, needs to be developed. As poverty and social exclusion are multidimensional by nature, it is important to promote an integrated approach mobilising various governmental bodies and all relevant stakeholders in the process. It is also crucial to improve and develop social statistics systems on poverty and social exclusion in line with the EU commonly agreed indicators on social inclusion.

As regards other areas of social protection, implementation of the social assistance reform should continue. Introduction of the guaranteed minimum income level system is pending, requiring adoption of the necessary legislation, establishment of social assistance offices at municipality level and availability of the necessary funds.

Further efforts are needed to ensure alignment and enforcement of the *acquis* on anti-discrimination. Legislation transposing the Directives based on Article 13 of the EC Treaty has to be introduced and implemented. The Equality Body foreseen in the *acquis* needs to be established.

Conclusion

In its 1997 Opinion, the Commission concluded that social reforms should be pursued, and the public health system needed to be significantly improved. In addition, the social dialogue needed to be further developed. Latvia would need to make substantive efforts to ensure the realignment of its legislation with EC requirements in areas such as health and safety, labour law and equal opportunities and to continue to develop the structures needed to ensure effective implementation of legislation. Provided Latvia pursued its efforts, it should be possible to take on the obligations of EU membership in the medium term.

Since the Opinion, Latvia has made good overall progress in aligning with the *acquis*, especially over the last two years and in particular in the areas of labour law and equal treatment for women and men. Efforts have been made as well to strengthen the administrative capacity of social institutions.

Negotiations on this chapter have been provisionally closed. Latvia has been granted transitional arrangements in respect of the following Directives: Directive on work equipment – until 1 July 2004; Directive on workplace – until 31 December 2004; Directive on display screen equipment – until 31 December 2004. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts should now focus on: completing transposition (anti-discrimination, health and safety, labour law and tobacco); effective implementation and enforcement (labour law, equal treatment, health and safety, public health, and anti-discrimination); developing the bipartite social dialogue; and reinforcing the administrative capacities of the State Labour Inspectorate and of the bodies related to the European Structural Funds.

Chapter 14: Energy

Progress since the last Regular Report

Latvia continued the alignment with the energy *acquis* and progress has been achieved, in particular as regards security of supply and the creation of the internal energy market. Steps have been taken to further improve the administrative capacity and to reinforce the legal base for the functioning of the Public Utilities Commission and the State Energy Inspectorate.

Concerning **security of supply**, in March 2002 a Regulation aiming at compliance with EC legislation on maintaining oil stocks was approved. Oil stocks will be held by the companies holding licenses for business operation with oil products and by the State itself. Oil stocks will be increased gradually to the required level, while the burden will be shared among the licence holding companies and the State.

Legislation concerning the energy information system was adopted in May 2002. It requires the Ministry of Economy to establish an energy database in order to ensure balanced energy consumption and demand, and to prepare for energy crisis management.

The Ministry of Finance and the Ministry of Economy have been nominated as the institutions responsible for the control of the formation and maintenance of oil stocks. In July 2002, the Ministry of Economy established the first monthly report on the level of oil stocks.

Regarding oil supply crisis management measures, progress has continued with the adoption of implementing legislation in March 2002 defining restrictions on energy consumption. A State Energy Crisis Centre has been established, which includes representatives of ministries and the largest enterprises. The Energy Department of the Ministry of Economy is the Secretariat of the Crisis Centre.

In the area of **competitiveness and the internal energy market**, a policy document on Energy Policy in the Electricity Sector, aiming at ensuring the reliability and quality of electricity supply and at creating competition in the electricity market, was approved in September 2001. In line with this document, implementing legislation was adopted in January 2002, concerning production of electricity from renewable sources and the purchase price for surplus electricity generated thereby.

Regarding the *electricity market*, the market is being opened gradually. In November 2001, instructions and criteria on electricity consumption for the status of eligible customer were approved. In 2001, there were 10 eligible customers representing together 13.8 % of the total consumption of electricity in Latvia. As the threshold was not changed for 2002, the number of qualified customers remains approximately the same. Currently the threshold is set at an annual consumption of 40 GWh. This threshold will be lowered to 20 GWh from January 2003, corresponding to a market opening of approximately 20 %. Full market opening is scheduled for 2006.

In the framework of the implementation of the Plan for restructuring the state-owned energy utility, Latvenergo Joint Stock Company (JSC), the Transmission System Operator was established and registered in December 2001. The new Transmission System Operator is a separate legal entity fully owned by Latvenergo JSC.

Further progress has been made for the creation of legal preconditions for the liberalisation of the *gas market*. In October 2001, the Concept on the Liberalisation of the Gas Market was adopted. The concept aims at introducing elements such as third party access, designation of eligible customers, regulation of transmission, distribution and storage tariffs, and abolition of regulated natural gas selling prices. In October 2001, an Action Plan for implementation of the Concept was adopted.

The privatisation of Latvijas Gāze was completed in February 2002. The last 3% of the state-owned shares were sold through a public offering accepting privatisation vouchers.

The regulatory body for energy issues (responsible also for telecommunications, postal and railway transportation), the Public Utilities Commission (PUC), is financed through state-collected fees from regulated enterprises. The approved annual budget for the PUC in 2002 is LVL 1 million (€1.8 million). As of April 2002, the PUC had 66 employees. Staff of the Public Utilities Commission benefited during the reporting period from extensive training.

Concerning **energy efficiency and renewable energy**, in accordance with the Energy Efficiency Strategy approved in November 2001, implementing legislation was adopted in January 2002 to promote the use of renewable energy sources and domestic production of heat and electricity in combined heat and power plants.

The State Energy Inspectorate, the institution responsible for energy efficiency control and supervision, has been operational since November 2001; its statute was approved in May 2002. In 2002, LVL 52 700 (€94 100) were allocated for the Inspectorate, which had contracted 7 employees by the end of April 2002.

As regards **nuclear energy**, Latvia operates no nuclear power plant. In the field of *nuclear safety*, the decommissioning of the Salaspils nuclear reactor, a pool-type research reactor closed in 1998, is continuing. Tender procedures on the right to prepare tender documentation and to organise the tender procedures for decommissioning and dismantling of the reactor were completed in May 2002. Latvia has continued to make progress in finding solutions for managing spent fuel from the research reactor and radioactive waste. Implementing legislation dealing with the requirements for practices involving radioactive waste and related materials and with the criteria and principles for determining equivalence between low, intermediate and high level radioactive wastes, has been adopted in March and April 2002. To ensure operation of the Radiation Safety Centre, responsible for the supervision and control of radiation safety, LVL 184 439 (€329 355) were allocated in the state budget for 2002. The Centre completed 179 working days of educational and training activities in 2001.

Overall assessment

Concerning security of supplies, implementing legislation now has to be adopted to achieve alignment with the energy *acquis*. A continuous effort will be required to ensure the financing and build-up of the mandatory oil stocks. On the administrative side, the services in the Ministries of Economy and Finance responsible for the control of oil stocks should be strengthened.

On competitiveness and the internal energy market, the issue of energy price distortion remains to be addressed. The Public Utilities Commission has to be further strengthened and assure its full independence in order to be able to carry out the functions defined in the Electricity and Gas Directives.

Latvia is well advanced in implementing the internal energy market, but harmonisation with the Electricity and Gas Directives has not yet been fully accomplished. Concerning electricity, the market was opened, albeit to a limited extent, ahead of accession; the gradual opening of the market should continue in order to achieve at least the minimum requirements of the Electricity Directive upon accession. Reorganisation of the state electricity utility, Latvenergo, has to be completed with the establishment of separate and independent distribution, administration and power generation companies. Regarding gas, alignment with the Gas Directive should be completed, while the sector needs further restructuring. The Energy Law should be amended to provide the legal basis for third-party access and the establishment of eligible customers.

Concerning energy efficiency, harmonisation with the *acquis* on labelling appliances and minimum efficiency standards has to be completed. Additional efforts are required to

improve further energy efficiency and to enhance the use of renewable energy. The State Energy Inspectorate should be strengthened.

In June 2001, the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. Whereas Latvia does not operate commercial nuclear power stations, the Report contains recommendations of relevance to Latvia with regard to other nuclear installations, including the safe management of radioactive waste. During the first half of 2002, a special Peer Review on nuclear safety assessed the progress made by candidate countries in implementing all recommendations. This exercise under the auspices of the Council resulted in a Status Report published in June 2002, which concludes that Latvia has accepted and adequately addressed all the recommendations contained in the June 2001 Report on Nuclear Safety in the Context of Enlargement.

Longer-term solutions for spent fuel and nuclear waste will continue to need attention. On the administrative side, the capacity of the Radiation Safety Centre should be strengthened.

Latvia will need to ensure compliance with Euratom requirements and procedures. In this respect, due attention will need to be given to preparing the implementation of Euratom Safeguards procedures, in particular, direct reporting of nuclear material flows and inventories by the persons or undertakings operating nuclear installations, or storing nuclear material. This includes small holders like universities, hospitals and medical practices. It should be noted that Latvia has concluded a Full-Scope Safeguards Agreement with the IAEA.

Conclusion

In its 1997 Opinion, the Commission concluded that provided that Latvia's efforts were intensified, no major problems were foreseen to approximate progressively to the then existing *acquis* in the medium term, adding that aspects such as the adjustment of monopolies, access to networks, energy pricing, emergency preparedness, including the building up of mandatory oil stocks, energy efficiency remained of specific importance. The Commission added that, while no major difficulties were foreseen for compliance with Euratom provisions, Latvia should become rapidly party to certain international nuclear regimes.

Since the Opinion, Latvia has made progress in aligning with the *acquis* in all areas, especially over the last two years. The implementation of the internal energy market is under way. The formation of oil product reserves has begun. Steps have been taken to improve the administrative capacity and the functioning of the Public Utilities Commission and of the State Energy Inspectorate. An overall reasonable level of legislative and administrative alignment with the EC requirements has been achieved.

Negotiations on this chapter have been provisionally closed. Latvia has been granted a transitional arrangement concerning the building up of oil stocks until 31 December 2009. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts should now focus on ensuring full and timely implementation of legislation in this area, in particular with regard to implementing legislation on oil stocks, the internal energy market (gas and

electricity), on ensuring finance to progressively build up oil stocks and on reinforcing the administrative capacity of the various bodies (independence of the energy regulator).

Chapter 15: Industrial policy¹⁷

Progress since the last Regular Report

Since the 2001 Regular Report, progress has been made in this area. Latvia has confirmed its new approach to industrial policy, but only limited progress has been made in terms of implementation. As in previous years, the Government has focused on investment promotion. Limited progress has been made to strengthen administrative capacity.

As regards **industrial strategy**, the reflection on ways to promote competitiveness has further advanced. Latvia has confirmed the shift away from a sectoral approach towards the promotion of growth-generating activities and cluster development. However, policy documents, including the industrial policy guidelines, have not been updated and are still very vague on delivery mechanisms, responsibilities, resources and timetable, thus not allowing for proper monitoring.

The Ministry of Economic Affairs and the Latvian Development Agency, which has been reorganised into a state agency, are playing an increasing role in the promotion of industrial clusters. The business dialogue has been strengthened through the involvement of the business community (industrialists, professional associations and bankers) as well as of academic and research institutions in the cluster pilot projects. The dialogue has been particularly fruitful in the IT and forest-based sectors. However, it is not yet clear how these initiatives will be continued especially with regards to the preparations for structural funds.

Government policy has continued to focus on investment promotion, in particular through the simplification of legal and administrative procedures as well as the introduction of several tax incentives. In 2001 the steady growth in both domestic and foreign investments was confirmed. The real growth rate of gross fixed capital formation was 17.0% and the share of gross fixed capital formation in GDP reached 27.3%. Non-financial investment increased by 8%, and machinery and equipment accounted for almost half of it. The manufacturing sector continues to attract foreign direct investments, although at lower levels than before (17% in 2001 against 20-25% in previous years). The good investment performance in Latvia can be attributed mainly to the stable macroeconomic environment, the reduction of interest rates, the expansion of the banking sector, and the improvement of the business environment (*see also Chapter 16 – Small and medium-sized enterprises*).

Since last year, **privatisation and restructuring** have made further progress. In the manufacturing sector the share of private companies in gross value-added now exceeds 90% (*see also Section B.1.2. - Economic criteria*).

¹⁷ Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (*see Chapter 16 - Small and medium-sized enterprises*).

Overall assessment

Latvia has further developed its industrial strategy. The Government is starting to implement a pro-active innovation policy, which is crucial in a small open economy where technology-driven industries still account for less than one tenth of exports. It has engaged in cluster development with a view to enhancing industrial competitiveness, delivering focused state support and structuring the dialogue with the business community. However, efforts to base industrial policy on an effective strategic planning system and to introduce an effective monitoring and evaluation system should continue in the context of structural funds.

Latvia has achieved a lot in terms of investment promotion. Continued improvement of the business environment to foster investment should remain a priority. Efforts should be sustained with a view to confirming the increase in investment diversification.

The necessary administrative structures are in place, but are still weak. The central body responsible for the formulation and co-ordination of industrial policy is the Ministry of Economy. The Ministry still has to better define its role, including in the preparations for structural funds. The main implementation body is the Latvian Development Agency (LDA). In addition to its new role in cluster promotion, the LDA will take over most of the responsibilities of the Latvian Privatisation Agency, which is about to be liquidated. The LDA needs to be strengthened to ensure that it can play its role as an integrated agency for enterprise development efficiently. The other agencies and governmental bodies involved in the implementation process include the Competition Council, the Latvian Standards Organisation, the Regional Development Council and the Latvian Technological Centre.

Over the past years, Latvia has witnessed increasing activity by business associations and significant improvement in their dialogue with the Government. The strengthening of professional associations should continue and the links between the various consultative mechanisms should be tightened. This will be facilitated by the merger of the secretariats of the Foreign Investors' Council (organisation leading the process of simplifying the business environment) and the National Economy Council (Ministry of Economy's consultative body representing the interests of the local business community) under the auspices of the LDA.

It should be noted that an important element of any industrial policy is the control of state aid and the compatibility of support schemes with EC rules (*see also Chapter 6 - Competition policy*).

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia would be able to cope with integration into the EU in this area, provided that it strengthened measures to foster domestic capital formation and continued to encourage positive trends in privatisation, enterprise restructuring and attracting foreign direct investment.

Since the Opinion, Latvia has continued to make good progress in most areas, and Latvia's policy towards industry generally complies with the concepts and principles of EC industrial policy, i.e. it is market-based, stable and predictable.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on further implementing the principles set out in its industrial strategy and co-ordinating its administrative structures, as well as further enhancing competitiveness in the enterprise sector so as to achieve full integration into the Single Market.

Chapter 16: Small and medium-sized enterprises¹⁸

Progress since the last Regular Report

Since last year's Regular Report, Latvia has made limited progress in revising its SME strategy and reforming the state support system for business promotion. However, efforts to improve the business environment have continued.

Since the last Regular Report, some progress has been achieved on **SME policy**. Latvia endorsed in April 2002 the European Charter for Small Enterprises. The Charter principles will be reflected in the new SME strategy for the period 2002-2006 (National Programme for SME development 2002-2006), which is under preparation. The second phase of the government's SME lending programme, in collaboration with commercial banks, public and international financial institutions has led to a better access to finance for small business. Some efforts have also been made as to improve access to information such as the Latvian Development Agency's Internet portal for exporters. Only some progress has been made in reforming the support system for business promotion. In October 2001, it was decided to close down the Latvian Export Credit organisation. Discussions are ongoing about a future guarantee scheme.

In April 2002, Latvia endorsed the principles of the European Charter for Small Enterprises. The European Charter, adopted by the European Council in June 2000, is the reference document in the field of enterprise policy within the economic strategy set up at the Lisbon European Council. The reporting process on the implementation of the European Charter in Latvia started in May 2002.

The **business environment** continues to be improved in collaboration with the Council of Foreign Investors in Latvia, the National Economy Council and local business associations. The Latvian Development Agency is conducting a reassessment of the administrative barriers to investment, in collaboration with the Foreign Investment Advisory Service, which is part of the World Bank's group.

The new Commercial Code entered into force in January 2002. Amongst other things, it reduces the number of legal business forms from seventeen to the internationally recognised five. However, enterprises point to some practical problems, to the costs due to the obligation to re-register companies and to the coexistence of two systems in the transition period. The law "on annual reports of enterprises" provides for a simplified reporting system for small businesses.

¹⁸ Developments concerning SME policy should be seen in relation to overall enterprise policy, including industrial policy (see Chapter 15 - Industrial policy).

The new law, which is being prepared on the control of State aid (*see Chapter 6 - Competition policy*), is expected to take into account the Commission Recommendation on **SME definition**. The distinction between micro-, small and medium-sized enterprises and the criterion of financial independence will be introduced.

Overall assessment

Latvia has made progress in structuring an SME policy in line with that promoted by the EU. While the Government has acknowledged in various documents the importance of SMEs for increasing economic competitiveness, it took time before commitments were translated into concrete actions. The allocation of adequate resources has proven to be a further problem.

The administrative capacity to manage SME policies remains weak. The budget reduction in 2002 for the Latvian Development Agency has come at a time when new tasks are being allocated. So far, the Ministry of Economic Affairs has not been actively involved in the preparation for the Structural Funds, through which significant support to SMEs can be provided in future.

Over the last few years, emphasis has been put on improving access to finance and on the improvement of the legal and administrative framework for business activities. The availability of bank finance no longer seems to be a real problem. Increased attention will have to be drawn to non-banking sources of finance, such as schemes for start-ups, and to equity. Efforts should be strengthened to prepare for full use of structural funds in the area of enterprise development.

The business environment has significantly improved as a result of regular consultations between the Government and business representatives, including foreign companies and more recently also local business associations. According to the business community, the functioning of courts, administrative capacity at municipal level, construction and real estate transfer procedures, education and training, infrastructure development, and the fight against tax evasion are among the issues still requiring urgent attention. Efforts also need to be sustained in such areas as customs, public procurement, and the particular needs of smaller enterprises. The emerging practice of consulting business representatives when preparing new legislation must be continued. Efforts must be made to ensure a proper follow-up to these consultations and to inform the interlocutors about subsequent changes.

Efforts are needed to upgrade business support services and to inform businesses better of the rules applying to them within the EU. Also business associations must be strengthened so that they can efficiently present their views to the authorities, irrespective of their size and political adherence.

Conclusion

In its 1997 Opinion, the Commission concluded that the basic structures for SMEs were in place, but there was a need for further refinement of policy, the simplification of legislation to make it more SME-friendly, the strengthening of support infrastructures, an improvement of the tax environment and the development of SMEs' access to finance.

Since the Opinion, Latvia has made further progress in addressing some of the challenges of SME policy and has markedly improved the business environment. Its policy towards SMEs is generally in line with the EU approach.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements in this area. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on establishing and strengthening the delivery mechanisms as well as the administrative capacity to manage SME policies.

Chapter 17: Science and research

Progress since the last Regular Report

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

In November 2001, Latvia adopted Priority Directions of Science for Financing of Fundamental and Applied Research for the Period 2002 to 2005, which cover information technologies, organic synthesis and bio-medicine, material sciences, forestry science and wood technologies.

The state budget for science and research has slightly increased. In 2001, Latvia allocated an extra amount for the promotion of more research-oriented projects.

Latvia continued to be associated with the Fifth EC **Framework Programme** and with the Fifth Euratom Framework Programme. Latvia expressed interest in being associated with the Sixth Framework Programme (2002-2006). The Latvian National Contact Point office for the Fifth Framework Programme has been active in informing and supporting scientists during the application process.

Overall assessment

The framework for co-operation in the field of science and technology (including National Contact Point network) is well established. However, Latvia's research-related administrative capacity needs to be further developed.

Latvia's gross domestic expenditure on research and development as a percentage of GDP remains very low and still needs to be increased significantly in order to come closer to the EU average. Financial constraints limit Latvia's possibilities to participate effectively in the European Research Area. Promoting science and research in Latvia will, in particular, require a further increase in business expenditure on research and development (BERD), i.e. spending on science and research activities by industry, small and medium-sized enterprises and the private business sector in general. Furthermore, research activities in universities should be fostered and proper risk capital legislation must be introduced. Under these circumstances, it has been noted that the number of scientists is slowly decreasing, while the number of young researchers working abroad has increased.

The National Innovation Concept aiming at promoting the link between research and industry is not adopted yet. Once adopted, it should be also reflected in the establishment of the national development policies. The links between research, SMEs and industry have to be further developed in order to create more dynamic and fruitful interaction.

Conclusion

In its 1997 Opinion, the Commission concluded that, in the perspective of accession, no major problems were expected in this field. Accession would be of mutual benefit.

Since the Opinion, Latvia has established the institutional and financial framework for its participation in the Fifth Framework Programme.

Negotiations in this chapter have been provisionally closed. Latvia has not requested any transitional arrangements in this area. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts need to focus on reinforcing the science- and research-related infrastructure, promoting effective links between research and the private sector and finally increasing significantly its gross domestic expenditure on research and development. These are vital issues for a successful association with the relevant Communities' Framework Programmes.

Chapter 18: Education and training

Progress since the last Regular Report

Since the last Regular Report further progress has been achieved in this area. Latvia's efforts concentrated on the education reform, the development of vocational training and the strengthening of administrative capacity.

Latvia continued to participate in the second generation of the Socrates, Leonardo da Vinci and Youth **Community programmes** (*see section A.b - Relations between the European Union and Latvia*).

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

Concerning **reforms in the field of education, training and youth**, the Concept on Development of Education for 2002-2005 was adopted in June 2002. It defines the main development areas such as increasing the quality of education and effective use of resources as well as access to education and institutional development. In the framework of remuneration reform, teachers' salaries will increase gradually within the next two years. In February 2002, the Government adopted the Investment Strategy of the Ministry of Education and Science for 2003-2007.

Regarding vocational education and training, a regulation introducing centralised vocational qualification examinations was approved in October 2001. Between July 2001 and April 2002, ten standards for professions were adopted.

The Ministry of Education and Science undertook training actions to strengthen its administrative capacity.

Overall assessment

After satisfactory participation in the first phase of Community programmes, Latvia has continued to participate in the second generation of the Socrates, Leonardo and Youth programmes. The national agencies responsible for participation in the Community programmes are functioning properly.

Though legislation for a mobile and adaptable vocational education and training system is in place, implementation of the education reform should be considerably stepped up. Standards for basic vocational education are still to be developed. For the proper functioning of the Vocational, Education and Training Council, it is necessary to coordinate and to strengthen the administrative capacity of the constituent ministries. The qualifications of teachers and trainers should be raised, including particularly at local levels. The process of exam standardisation has to continue and greater flexibility needs to be introduced into the curricula.

Private enterprises need to be involved actively in the development of vocational education. Particular attention should be paid to the further development of a coherent system of continuing vocational training. The vocational training system should assist in the implementation of education policies targeted also at the less well developed regions, particularly those where unemployment remains very high. The system has to be made more accessible to low-skilled, disadvantaged groups. Sufficient funding needs to be ensured in order to support the reform process.

Conclusion

In its 1997 Opinion, the Commission concluded that, in the perspective of accession, no major problems should be expected in these fields.

Since the Opinion, Latvia has participated actively in the Community programmes, and the reform of the education and training system has got under way. Latvia's legislation is globally in line with the *acquis* in this area.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia efforts now need to focus on the implementation of the Directive concerning education of children of migrant workers, strengthen the institutions involved, completing the reform of the education system, and raising the overall quality of vocational education and training.

Chapter 19: Telecommunications and information technologies

Progress since the last Regular Report

Since last year's Regular Report, Latvia has made good progress in aligning with the *acquis* in the area of telecommunications and has also improved the administrative capacity, notably of the regulator.

The new Law on Telecommunications, adopted in November 2001, provides the legal basis for full **liberalisation of the telecommunications market** as of January 2003. The Law aims at aligning Latvian legislation with most of the *acquis* requirements. Amongst others, the Law provides for the expiry of the exclusive rights that are granted to the national operator Lattelekom, the monopoly provider, regarding the provision of telecommunications services through the fixed network as of January 2003. No progress can however be observed as regards the further privatisation of the national operator.

As regards the **regulatory framework**, the new Law on Telecommunications also transposed a number of *acquis*-related provisions, including provisions on licensing, tariffs, universal service provisions, interconnection, data protection, independent management of the national numbering plan and the frequency spectrum as well as number portability. While most of the regulatory functions have been assigned to the Public Utility Commission (PUC), which started to exercise its regulatory functions for telecommunications in October 2001, responsibility for telecommunication policy and certain regulations remain with the Ministry of Transport. Since then, implementing legislation required under the transitional arrangements of the law has been adopted in accordance with an implementation plan. By May 2002, several regulations such as on general permits and licenses, undertakings with significant market power, the methodology for tariff calculation, dispute settlement as well as regarding the general principles on universal service and operation of the Universal Service Fund were adopted.

The capacity of the regulatory body has been enhanced through further staff increases (now 66 persons) and an increase in the budget for 2002 to LVL 1 million (€ 1.8 million).

In the field of information technologies, in December 2001 the Government adopted the Action Plan for implementation of the Concept on Electronic Commerce. Latvia's national programme for the eEurope+ Action Plan has been updated to include the concept of e-Latvia devoted to the inclusion of everybody in the process of information society development.

Since the last Regular Report, no new legislative developments were registered in the area of **postal services** other than the issuing of standards for universal postal service in September 2002.

Overall assessment

Latvia will need to transpose the updated telecommunication *acquis* before accession and to complete the implementation procedures as soon as possible afterwards.

Concerning the **liberalisation of the telecommunications market**, Latvia should enhance efforts to facilitate entry to the part of the market so far monopolised by

Lattelecom. Latvia has committed itself under the WTO as well as under the negotiations for accession to fully liberalise the telecommunications market as of January 2003, instead of 2013 as originally planned.

In 1998, the Government had already decided to privatise the state's remaining 51% shares of Lattelecom, but this has been delayed by a contractual dispute.

Penetration in mobile services has reached 30%. There are two GSM operators, but MTS licences have yet to be issued. Fixed network penetration reached 32% and is now static. Network modernisation and price rebalancing should be continued.

Regarding the **regulatory framework**, Latvia has transposed most of the core norms of the existing EC telecommunications *acquis*. Further efforts have been made to improve the administrative capacity and legal base for the functioning of the telecommunications branches of the PUC. The separation of functions required by the *acquis* is however prejudiced by the Ministry of Economy's combined responsibilities for presenting PUC regulations to the Government for adoption and for privatisation of the state's shareholdings in operating companies.

Latvia has adopted a strategy in June 2002 in order to be able to evaluate the economic implications of fully implementing the universal service *acquis* so as to achieve affordability. A decision on this point remains outstanding.

In the field of **postal services**, legislative alignment has to be completed regarding the licensing regime, universal service providers, reserved area, requirements for tariff principles, transparency and separation of accounts for postal service providers as well as standards for quality monitoring of postal services.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia would have some difficulty in meeting the *acquis* in the medium term because legislative reform was progressing slowly and existing commitments concerning exclusive rights for the public operator were a barrier to liberalisation. The Commission added that greater competitiveness for the public operator must be achieved to attract the investment needed to modernise and face up to competition.

Since the Opinion, and especially over the last year, Latvia has made good progress in aligning with most of the *acquis* requirements as well as in strengthening the administrative capacity in this field.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Latvia's efforts need to focus on the opening-up of the fixed telecommunications market to competition, on adopting implementing legislation, on improving the effectiveness of the regulator and on completing legislative alignment on postal services.

Chapter 20: Culture and audio-visual policy

Progress since the last Regular Report

During the reference period further developments have taken place in this sector, particularly in terms of developing institutional structures.

However, there has been no particular progress in alignment of legislation with the **audio-visual** *acquis* during the last year.

Actions were taken to reinforce the Information Centre of the National Broadcasting Council.

The Information Centre of the National Broadcasting Council has finished the codification, study and evaluation of information resources. Activities carried out by the Centre included establishment of a web-site containing information on the Council and related activities, a seminar for local and regional TV broadcasters and a publication on electronic mass media in Latvia.

A Memorandum of Understanding, providing for Latvian participation in the Community Media Plus and Media Training programmes, was signed in July 2002, taking effect from January 2002.

In the field of **culture**, the Association Council decision allowing Latvia to participate fully in the "Culture 2000" programme as from 2001 was adopted in October 2001.

Overall assessment

Latvian legislation in this area is largely in line with the *acquis*. However, further amendments to the Latvian Radio and Television Law, in particular relating to provisions regarding major events and the proportion of Latvian music to be broadcast, will be necessary. Latvia must also review the requirements on the broadcasting time which public broadcasters must reserve for in-house production, in order to make it proportionate. Furthermore, the implementing legislation concerning broadcasting of major events provided for in the Radio and Television Law needs to be adopted.

The administrative structure of the National Broadcasting Council and its monitoring capabilities have to be further strengthened in terms of staffing and budgeting. Its sanctioning powers should be reinforced in order to assure effective compliance of broadcasters with the Law.

Latvia is party to the Council of Europe Convention on Transfrontier Television and its amending Protocol.

Conclusion

In its 1997 Opinion, the Commission concluded that provided that the necessary legislative amendments were pursued with sufficient urgency and were accompanied by the necessary structural adaptation of the industry, Latvia should be able to meet EC requirements in the audio-visual sector in the medium term.

Since the Opinion, Latvia has made significant progress, especially through the adoption in February 2001 of the Radio and Television Law. Latvia is well advanced in this domain, in particular as regards legislative alignment. The necessary administrative structures are in place.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts should now focus on completing alignment with the *acquis* and on reinforcing the sanctioning and monitoring powers of the National Broadcasting Council so as to assure effective and transparent supervision of the sector.

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

Progress since the last Regular Report

Since the last Regular Report, Latvia has made important progress in preparing for the implementation of structural policies.

As regards **territorial organisation**, in April 2002, an agreement was reached with Eurostat on NUTS classification for the purpose of collecting and disseminating regional statistics at Community level. According to the agreement, the whole of Latvia corresponds to NUTS I and NUTS II level. The five planning regions Kurzeme, Latgale, Riga, Vidzeme and Zemgale correspond to NUTS III level, but the precise borders of each of the 5 planning regions will be re-defined.

In order to establish the **legislative framework**, Latvia adopted the Regional Development Law in March 2002, which lays down the general system for regional policy. The new law includes provisions linked to the planning and co-ordination of the EC Structural Funds regarding regional development. The Spatial Planning Law, which defines the framework as well as institutional responsibilities for spatial planning at all levels, was adopted in May 2002.

Concerning **institutional structures**, in February 2002, the main institutions to be involved in the process of management of the Structural Funds and the Cohesion Fund were designated. The Ministry of Finance will become the Managing Authority for the future Single Programming Document and the Cohesion Fund. The State Treasury is designated as the paying authority for the Structural Funds and the Cohesion Fund. A number of partner institutions have also been assigned to implement activities of each particular Structural Fund. In addition two implementing bodies have been appointed for Cohesion Fund activities. In order to establish the implementation system of the Structural Funds and the Cohesion Fund, guidelines on the management, monitoring, evaluation and control of EC Structural Instruments were adopted in March 2002, defining tasks and responsibilities of the managing authority, paying authority, partner institutions and intermediate bodies. As of March 2002, a Structural Funds Inter-Ministerial Working Group is operating in order to facilitate inter-ministerial co-ordination on a day to day management basis and to become a permanent Structural Funds Steering Committee upon accession.

In order to strengthen the administrative capacity of the future managing authority, the Ministry of Finance started its reorganisation in 2002 by merging several institutions under its authority, creating new departments and through the recruitment of additional staff. In March 2002, an inter-ministerial working group was established to develop a Human Resources Development Plan for all the institutions that will be involved in the management, monitoring, evaluation and control of Structural Funds and Cohesion Fund.

In relation to preparation of **programming**, the National Development Plan (2002-2006) was submitted to the Commission in January 2002. This plan will serve as the basis for the establishment of the draft Single Programming Document as required by the Structural Funds regulations. The preparation of this draft and of the programme complement started at the beginning of 2002. In July 2002, the Government reached an agreement on the priorities of the draft SPD. They include five priorities: one for each Fund (EAGGF, FIG, ESF) and two for ERDF (business development and infrastructure) with an additional priority for Technical Assistance. The Management Group is entrusted by decision of the Government of March 2002 with the task of steering the preparation of the development plan.

In the framework of the **partnership principle** and in order to promote co-operation among the public administrative levels (central, regional, local) and non-public partners, the Management Group of the National Development Plan (including representatives of ministries and planning regions) organised in March and April 2002 two partnership seminars with representatives of non-government organisations and planning regions to discuss the elaboration of the Plan. The new Regional Development Law provides inter alia for the establishment of the National Regional Development Council that will perform the functions of the co-ordinating institution in the area of regional development at the political level.

With regard to **monitoring and evaluation**, no particular developments can be reported other than the adoption the above mentioned guidelines. The Ministry of Finance as the managing authority will become responsible for setting up the monitoring and evaluation system and the Foreign Assistance Co-ordination Department of the Ministry will be responsible for development and maintenance of an effective external resource monitoring system. Structures have already been established in other line ministries to ensure monitoring of pre-accession financial assistance.

In relation to **financial management and control**, the institutional structure established in the guidelines designates the State Treasury as the Paying Authority for the Structural Funds and the Cohesion Fund. On the control side, the Ministry of Finance will ensure the overall co-ordination of internal audit units of all public institutions. Internal audit units will be operational by the date of accession. The State Audit Office will perform the external financial control, entitling the State Audit Office to audit every element of the chain down to the final beneficiaries of EC funds.

Concerning **statistics**, preparatory work for a computerised monitoring data exchange system, covering the four funds is underway.

Overall assessment

Latvia has already organised its territory into units corresponding to the NUTS classification, but the exact borders of the currently defined five NUTS III planning regions need to be confirmed.

The establishment of institutional structures has advanced. Latvia has designated the bodies, which are to be responsible for the implementation of the Structural and Cohesion Funds. However, the allocation of tasks has still to be completed and implementing legislation remains to be adopted in order to define the management, monitoring and control system, the allocations of functions and the organisational relationship between the various bodies. The administrative capacity is presently a matter of concern and the Human Resources Development Plan concerning the institutions involved will have to be completed. Latvia will thus have to step up its efforts significantly to bring the administrative capacity of the managing and paying authorities, intermediate bodies and other relevant bodies up to the level required.

Latvia should pay particular attention to guarantee that project selection and decision-making will be managed within a framework that ensures transparency, efficiency and reliability in the implementation of programmes. It should also continue to work towards developing the necessary structures and co-ordination mechanisms to manage financial assistance from the different Funds in the context of the priorities and strategies of the European Union.

With regard to programming, the adoption of the National Development Plan for 2001-2006 and Latvia's decision to opt for a Single Programming Document are important steps forward. However, Latvia still needs to significantly improve its programming capacity. To that end, there will need to be efficient and effective inter-ministerial co-operation and partnership throughout the whole process of preparing the draft Single Programming Document. The ex-ante evaluation of the draft Single Programming Document (SPD) is still to be started. Further progress must also be made with the technical preparation of projects eligible for Structural and Cohesion Funds assistance (project pipeline) and with building up adequate capacity at national and sub-national level. Concerning project implementation, the administrative capacity at sub-national level should be strengthened.

The final allocation of responsibilities for monitoring and evaluation has not been defined yet. Work on ensuring compliance with the *acquis* requirements for monitoring and evaluation must thus continue, in particular as regards the ex-ante evaluation of the draft Single Programming Document. To ensure effective and efficient implementation of the Structural Funds programmes, it is crucial that the computerised data exchange system for monitoring of the Structural Funds and the Cohesion Fund is tested and operational by the date of accession.

Regarding financial control, control units have been established within each Ministry, but the final allocation of functions between the managing authority, paying authority, partner institutions and intermediate bodies is not defined yet, so the process needs first to be completed. As far as statistics are concerned, efforts should continue to ensure the availability of relevant and reliable statistics for programming, monitoring and evaluation.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia manifested a clear political awareness of the need to address rising regional disparities. Given its small size, the decision to maintain regional policy within the framework of the national development strategy seemed justified. The Commission added that, although Latvia needed to improve the administrative structures intended to manage integrated regional development programmes, its administrative capacity should be able to meet these challenges, and subject to the necessary reforms should, in the medium-term, be ready to apply Community rules and channel effectively funds from the EC structural policies.

Since the Opinion, progress has been achieved mainly during the present reporting period with the adoption of the legal framework and the designation of the institutional structure. Latvia has continued to adopt the framework legislation related to the *acquis* covered by this chapter, but significant efforts are required to create the institutional structures and to translate legislation into concrete action.

Negotiations for this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments it made in the accession negotiations in this field.

In order to be ready for membership, Latvia should focus further efforts on building up at national and sub-national levels an adequate and efficient administrative capacity for the management of the Structural Funds and Cohesion Fund. Moreover, preparation of an up-to-standard draft Single Programming Document should be speeded up and inter-ministerial co-ordination and partnership needs to be ensured. Generally, all systems and procedures for effective monitoring, financial management and control should be reinforced and the legal framework has to be completed. The focus in the forthcoming period should shift to the implementation of the commitments made. Latvia has started to take measures to address the weaknesses identified, including through the allocation of human resources. Ongoing efforts need to be continued and substantially stepped up.

Chapter 22: Environment

Progress since the last Regular Report

Latvia has continued to make good progress in alignment with the *acquis*, in particular in relation to water quality, waste management, nature protection, and noise. Concerning administrative capacity, attention has been devoted to implementation issues and institutional strengthening. A new Nature Protection Board has been created.

With regard to the **integration of environment into other policies**, Latvia continued to implement the action programme for sustainable development adopted by all Baltic Sea countries within the framework of 'Agenda 21 for the Baltic Sea region'. A Council for sustainable development was established in March 2002, chaired by the Prime Minister. Environmental issues have been included in strategic documents of other sectors (such as agriculture, energy and fisheries).

As regards access to information under **horizontal legislation**, the law on environmental protection was amended in December 2001. The Aarhus Convention was ratified by Parliament in April 2002. With regard to environmental impact assessment, during 2001

8 Environmental Impact Assessments were performed and 10 are ongoing. Concerning climate change, the third national communication under the UN Framework Convention on Climate Change was approved in November 2001 and the Parliament ratified the Kyoto Protocol in June 2002. The Strategy for Sustainable Development (based on the Rio Declaration) was adopted in August 2002.

Regarding **air quality**, amendments were adopted to the existing Regulations on volatile organic compound emissions from storage and distribution of petrol in January 2002. In July 2002 amendments were adopted to the Law on air quality as regards benzene and carbon monoxide. Also in July 2002, amendments were adopted to the Regulation on conformity assessment of petrol and diesel fuel. In addition, legislation was adopted in June 2002 on fuel quality. Improvements have been made in terms of procurement of new equipment within institutions and monitoring stations have been established.

Since the last Regular Report, legislation has been adopted in the field of **waste management** as regards waste framework Directives, landfill of waste, packaging and packaging waste, disposal of waste oils, PCB/PCT and batteries and accumulators. Progress regarding establishment of new landfills and closure of the existing landfills has continued, bringing the number of landfills down to 252 (from 500). There has also been progress as regards enhancing the collection and recovery of waste and as regards preparations to overhaul the permitting system. The National Waste Management Plan was adopted in August 2002. In addition, rules regarding the temporary storage of hazardous waste and requirements concerning packaging waste have been adopted in July 2002.

Concerning **water quality**, Latvia has adopted legislation on urban waste water treatment, nitrate pollution, discharges of dangerous substances, groundwater, surface water for drinking water abstraction, bathing water, fish life and drinking water. On implementation, the development of action programmes for vulnerable zones was started in April 2002. Legislation adopted in January 2002 identifies the entire territory of Latvia as a sensitive area as defined by the urban wastewater Directive. Latvia has also established a preliminary list of possible sources of emissions of the so-called List I and II substances under the Dangerous Substances Directive and its daughter directives.

In the **nature protection** sector, amendments were adopted as regards the relevant law on birds and habitats. In May 2002, legislation was adopted setting the criteria for establishing protected nature territories. There was progress with site selection. The new State Environmental Monitoring Programme, including a comprehensive chapter on the monitoring of biological diversity, was also adopted in May 2002. As regards enforcement, a Nature Protection Board, responsible for the implementation of the nature protection legislation, was created and started operations in May 2002.

In the field of **industrial pollution control and risk management**, an integrated permitting system concerning integrated pollution prevention and control was introduced in January 2002. So far, one integrated permit has been issued. Legislation aiming at alignment with the *aquis* on VOC emissions from solvents, limiting values for benzene and carbon monoxide in ambient air, was adopted in July 2002, and the new *acquis* on Large Combustion Plants was adopted in August 2002. The State Environmental Inspection was strengthened with the establishment as of January 2002 of a new division

with five employees working specifically on integrated pollution prevention and control and major accident hazards installations.

In the area of **genetically modified organisms and chemicals**, new legislation was adopted in October 2001 on asbestos as well as on animal welfare. Amendments to the Regulation on the protection of the ozone layer were adopted in January 2002. In August 2002, the government adopted a regulation on procedures for notification and environmental and human health risk assessment of new chemical substances. Resources at policy level as well as the established institutions seem largely adequate. Co-ordination and co-operation are being improved. However, as regards contained use of genetically modified organisms, there appears to be a shortage of resources.

In the field of **noise**, new legislation was adopted in early 2002 addressing airborne noise emissions from household appliances as well as noise from equipment used outdoors. With a view to strengthening administrative capacity, the Consumer Rights Protection Centre is now the competent authority for noise emitted by household appliances. In the area of noise from equipment used outdoors, the competence is however divided among various institutions.

In the area of **nuclear safety and radiation protection**, implementing regulations have been adopted (*see also Chapter 14 – Energy*) regarding procedures for control and accounting of exposure of workers as well as subsequent pieces of legislation in the field of medical contraindications to ionising radiation exposure. Further legislation was adopted in relation to the requirements for practices involving radioactive waste and related materials, accountancy and control of nuclear materials, and the criteria and principles for establishment of equivalence for radioactive waste. The Radiation Safety Centre has continued training of staff on nuclear safety issues.

Latvia has carried out a number of activities (additional staff and training) to strengthen the **administrative capacity** and improve co-ordination of the environmental bodies responsible for the implementation and enforcement of the *acquis* at central and regional level. The Sustainable Development Council was established in March 2002 and the Nature Protection Board started to operate in May 2002. Latvia has also paid particular attention to the strengthening of the inspection system. During the reporting period training programmes have continued; they have mainly focused on horizontal legislation and inspectors of the Regional Environmental Boards, air quality, waste management, nature protection and nuclear safety and radiation protection.

As regards issuing of permits, the system is at present media-based, but is being overhauled. Public participation in the environmental impact assessment process, elaboration of new legislation and issuing of integrated permits is constantly increasing. In June 2002, legislation on all permits regarding waste management, including hazardous waste, was adopted and particular progress was made on industrial pollution control. Regarding enforcement, monitoring programmes have been prepared in some areas, including nature protection.

Overall assessment

Considerable alignment has been achieved with the EC environmental *acquis*. The Kyoto Protocol has been ratified. Work is still needed to adopt legislation in order to complete transposition in the fields of air quality (including the Directive on the sulphur

content of liquid fuels), waste management (end-of-life-vehicles), nature protection, water quality (water management Law, drinking water), chemicals and genetically modified organisms and nuclear safety and radiation protection (basic safety standards). Close attention should be paid to the implementation of the *acquis* with regard to waste management (permitting, including permitting of temporary storage of hazardous waste), air quality (ambient air quality programme), water quality (designation of vulnerable zones and preparation of action plans, review of permits), industrial pollution control (issuing of integrated permits) and chemicals (administrative capacity).

The principle of integration requires continuous attention both at national and at Community level. While Latvia is already implementing an Action Plan for Sustainable Development in the Baltic Sea, it needs to continue integrating environmental protection requirements into the definition and implementation of all other sectoral policies so as to promote sustainable development.

Latvia's administrative capacity to implement the *acquis* still requires attention. While generally co-ordination between the different institutions and bodies has improved, co-ordination and co-operation between the environmental bodies and the other government departments has to be improved significantly. Strengthening of all environment bodies, in particular the Latvian Environment Agency and Regional Environmental Boards are essential, including further clarification of roles and responsibilities. Staff resources remain limited and awareness of the requirements of EC environmental rules need to be further improved. Further training on EC environmental policy is still necessary. Particularly in the industrial pollution sector, there is a need to improve the distinctions between permitting, compliance, verification and enforcement within the Regional Environmental Boards. Appeal mechanisms should be strengthened and made more effective. Particular attention should be paid to establishment of more effective structures at the local level in terms of the high number of entities presently responsible for municipal waste and local protected areas.

Monitoring and reporting systems are being strengthened, but further efforts are needed to strengthen the co-ordination and communication capacity, notably of the Latvian Environment Agency. As regards planning and programming, it is important to strengthen the capacity at regional and local level and speed up preparations for EC environmental policy. This is vital to ensure that Latvia has the necessary programming capacity at accession. Latvia still needs to reinforce its monitoring capacity further. Progress has been achieved in the field of nature protection, air and water, but monitoring infrastructure and equipment still need to be upgraded and modernised. The co-ordination of monitoring and reporting procedures also needs further improvement and more efficient use should be made of monitoring data when issuing permits and carrying out inspections. Particular attention should be paid to improving the waste monitoring system. Finally, more human resources should be devoted to co-operation and support of private enterprises.

While the number of inspections has increased, they still focus on large installations, and small and medium-sized installations escape controls. In addition, inspections still need to adopt an integrated approach, and co-ordination between monitoring and inspection must be improved. Legislation on inspections and inspectors remains to be clarified as some areas partly use managed regulations as well as administrative instruments. Laboratories and equipment should also be improved further. As there is so far little practical experience with enforcement mechanisms, significant efforts remain to be made

to ensure the enforcement of the environmental *acquis* in Latvia. In this context, fines are an effective source of revenue and provide an incentive for operators to agree on improvement programmes with the environmental authorities. Considerable investments need to be secured, also in the medium-term, to ensure the implementation of the environment *acquis*. However, Latvia needs to step up its efforts to establish comprehensive investment strategies, which would improve investment efficiency by focusing the available resources on implementing the requirements of the *acquis*.

Conclusion

In its 1997 Opinion, the Commission concluded that with the current pattern and speed of reforms in Latvia, full transposition of the environmental *acquis* should be achieved in the medium term. However, effective compliance with a number of pieces of legislation (e.g. urban waste treatment, drinking water, aspects of waste management and air pollution legislation) could be achieved only in the long term and would require a significant increase in environmental investment, as well as a major effort to reinforce the administrative capacity.

Since the Opinion, Latvia has achieved considerable progress in aligning with the EC environmental *acquis*, in particular over the past two years, and, more recently, has progressed in developing the necessary administrative capacity to implement the *acquis* in this area.

Negotiations on this chapter have been provisionally closed. Latvia has been granted transitional arrangements with regard to volatile organic compound emissions from storage and distribution of petrol (end 2008), packaging and packaging waste (end 2007), temporary storage of hazardous waste as regards landfill of waste (end 2004), urban waste water treatment (end 2015), drinking water (end 2015), existing integrated pollution prevention and control installations (end 2010), asbestos (end 2004), and ionising radiation from medical equipment (end 2005). Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on finalising transposition (air quality; nature protection; waste management; water quality; chemicals and genetically modified organisms and nuclear safety and radiation protection), improving co-ordination and co-operation between national, regional and local levels and strengthening the overall administrative capacity.

Chapter 23: Consumers and health protection

Progress since the last Regular Report

During the reference period further progress was made in this sector in terms of legal alignment and strengthening the administrative capacity, notably in the regions.

Regarding **safety related measures**, the Government adopted legislation on requirements for aerosol dispensers and labelling procedures in March 2002. Further amendments concerning labelling of foodstuffs, relating to the novel foodstuffs requirements of the *acquis*, were approved in August 2001 (*see also Chapter 1 – Free movement of goods*).

On **non-safety related measures** the Parliament adopted amendments to the Consumer Rights Protection Law in November 2001, aiming at further alignment with the *acquis* in the areas of unfair contract terms, guarantees and injunctions. The Government adopted legislation on distance selling in May 2002.

As regards the **functioning market surveillance mechanism**, -the Market Surveillance Council has been established to ensure co-ordination between market surveillance institutions themselves and with other bodies such as Customs. Since 2001 it has met three times.

In 2001, the Consumer Rights Protection Centre (the main authority responsible for general product safety in almost all non-food products) set up a division dealing with surveillance of advertising and in particular misleading and comparative advertising and hired 9 extra staff.

In 2002, budget allocations were increased by 28%, allowing the establishment of a legal department as well as of 3 new regional offices (Tukums, Jelgava and Daugavpils).

As regards enforcement, in 2001 the inspectors of the Centre carried out 2508 controls relating to goods and services and detected 1899 breaches; only a few of them concerned the safety of consumer products. The Centre received 596 complaints in 2001, of which 401 were solved in favour of the consumer, and adopted 924 decisions on administrative breaches. So far, it is estimated that 80% of the complaints are solved through mediation and no case has yet been brought before courts.

Regarding the exchange system of information on dangerous products (TRAPEX), about 200 TRAPEX alerts have been received by Latvia; no TRAPEX notifications were made by Latvia itself.

Non-governmental consumer organisations play an increasing role in consumer protection and promotion of general awareness of consumer rights. In 2001, the Latvian Consumers' Protection Association received 4258 complaints from consumers concerning quality of goods and services and gave legal advice in order to protect consumer rights.

Overall assessment

Further adjustments of existing legislation are still needed to fully align it with the *acquis*, in the field of both safety and non-safety measures as well as on general product safety.

While Latvia is in the process of removing barriers to trade such as licences and pre-market authorisations, it is crucial to intensify post-market control to ensure consumer safety, both within the country and in the future enlarged internal market. There is still a danger that unsafe products can be dumped on the market, due to the lack of a coherent system and to the still small number of inspectors as well as the low capability for testing the safety of consumer products falling under the scope of the Directive on General Product Safety.

Furthermore, additional financial and human resources should be allocated to Latvian surveillance authorities and to the Consumer Protection Centre. Awareness among the general public about the safety of non-food consumer products should be improved. A

market surveillance information system for the rapid and secure exchange of information should be promoted to link surveillance authorities among themselves.

Further support for consumer organisations is needed in order to enable them to protect consumer interests effectively. Progress also remains to be made in enhancing consumers' and producers' awareness of their respective rights and responsibilities.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia needed to continue reform in the field of consumer protection since the existing legislation needed to be substantially adjusted or new laws brought forward. There was also a need for more efficient institutional structures to ensure the application of legislation. But taking on the consumer protection *acquis* in the medium term was not expected to cause major problems for Latvia.

Since the Opinion, Latvia has continued to make progress, and few problems have been encountered. Latvia has progressively put in place the legislative framework in the area of consumer and health protection in line with the *acquis* and has continued to strengthen its administrative capacity in this domain.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements in this area. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on completing transposition, ensuring that the administrative structures are in place and effectively fulfil their task in terms of market surveillance and increasing consumers' and producers' awareness.

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

Progress since the last Regular Report

During the reporting period, Latvia continued to align its legislation with the *acquis*, especially as regards visa policy and asylum. Institutions concerned with the area of external borders, visa and migration, money laundering and other forms of economic crime have been strengthened. However, less progress was made in the fight against drugs and trafficking in general and in co-operation between the various agencies involved in JHA.

As regards **data protection**, the 1981 Convention of the Council of Europe on the Protection of Individuals with regard to Automatic Processing of Personal Data entered into force in September 2001. Progress was made on personal data protection, where improvements were made regarding the further strengthening of the administrative capacity of the State Data Inspectorate (*see chapter 3 - freedom to provide services*).

As far as **visa policy** is concerned, progress was made in amending the regulation concerning visa issuing, i.e. extending the uniform visa and limiting the issuing of new visas. Amendments in force since May 2002 require transit visas for transit train passengers. Since the last Regular Report, agreements on a visa-free regime have been

concluded with Monaco, Panama and Romania. At present, a mutual visa-free regime has been established with 16 states, and with two states a visa-free regime is applied unilaterally.

As regards administrative capacity, the development of the Unified Visa Information System (UVIS) has continued and implementation of the Invitation Database and Entry Prohibition Database continued. Since September 2001, twelve border crossings on future external borders were connected to UVIS, and at present 38 out of 42 external border crossings have an on-line connection. Training on visa issues, including the newly created UVIS databases, has been conducted for all institutions involved.

Strengthening of **external borders** has continued through the implementation of the State Border Guard Development Concept 2001 – 2005. The main focus has been on the adoption of supplementary legislation to improve border control.

Regarding the establishment of an integrated border management system, several agreements were signed between the various institutions involved such as the State Border Guard and the Office of Citizenship and Migration Affairs as well as the Sanitary Border Inspectorate and the National Customs Board. The responsibility of the Border Guard was extended to the entire border and a Sea Border Guard Service was established.

Over the reporting period, strengthening of the state border continued at sea borders as well as the eastern border, including the green border. During the reporting period, secondary legislation was adopted in order to improve the effectiveness of border control. For 2002, the budget was increased, and three border crossing points and seven surveillance towers were built and modern equipment such as video surveillance systems and radiation control equipment was installed. Progress was also made in enhancing capacity to detect forged documents and to prepare for the participation in the False and Authentic Document (FADO) system, in connection with which a regulation was adopted in May 2002 and checking devices for detecting forgeries were provided to border crossings.

The electronic border control information system REIS-1999 is now operating on-line at all ports, providing also on-line connection to UVIS. The State Border Guard Information System (RAIS) continues to be implemented.

As regards administrative capacity, measures have been taken to strengthen the effectiveness of the Border Guard by increasing its budget as well as salaries. The establishment in April 2002 of the State Border Guard College based on a policy document for professional personnel training in the period 2001-2005 was a positive step. Training continued at the Rezekne Border Guard School. Other training activities focused on technical surveillance systems, border guard management, radiation control, falsified documents and foreign languages.

Co-operation among the bodies involved in border controls was also strengthened, especially in relation to the detection and identification of narcotic substances. The Border Guard and Customs have extended their co-operation on common information systems and use of unified technologies.

Latvia is making progress in aligning itself with the **Schengen** / EU requirements and continues to prepare for future participation in the Schengen Information System (SIS II). The Government has established a very thorough Schengen Action Plan in this respect,

which was revised in October 2001. The Information Centre, the Department of Citizenship and Migration Affairs, the State Border Guard, the Ministry of Foreign Affairs and the State Revenue Service are involved in the setting up of the SIRENE bureau and preparation for the National Schengen Information System. The development of information technology infrastructure and national registers continued.

As regards **migration**, steps for further alignment have been taken, but no new legislation has been adopted. In order to improve the efficiency of combating illegal immigration, in January 2002, the Immigration Service was established within the State Border Guard, mainly dealing with the identification, interviewing and extradition of illegal immigrants. The Service consists of the Immigration Board, regional units in every regional border guard board and the Olaine Detention Centre.

Co-operation with the other competent institution in the area of migration, the Office of Citizenship and Migration Affairs, was intensified, including the establishment of access to a common database. A co-operation agreement with the Russian Federation was signed in August 2002.

In May 2002, the Law on Identity Cards and Passports, which defines the types, content and usage of ID cards and passports, was adopted. The new passport system will include citizens' and non-citizens' passports, diplomatic and service passports, as well as stateless persons' travel documents. All these documents will serve as travel documents and will be elaborated in accordance with the demands stipulated in the resolution of the International Civil Aviation Organisation (ICAO) of 1999 and the Council Resolution of 17 October 2000 as regards passport contents, structure and security.

During the reporting period, training was continued concerning issues such as illegal migration, the rights of migrants, employment and self-employed persons, the role of border control in fighting terrorism, family reunification, implementation of Schengen / EU requirements in the area of migration and visas, and migration and asylum policy in the Baltic States.

In the field of **asylum**, significant progress was made in adopting the Law on Asylum in March 2002 which addresses the shortcomings of the previous legislation in terms of refugee status and the granting of subsidiary and temporary protection. The Law also addresses issues such as *non-refoulement*, safe third countries, family reunification, minimum guarantees for asylum procedures, detention of asylum seekers and repeated asylum applications, as well as providing for longer deadlines in case of the accelerated procedure.

In order to accelerate administrative procedures, the institutional structure was streamlined in early 2002. The State Border Guard is now responsible for interviewing asylum seekers and the Office of Citizenship and Migration Affairs considers cases and makes decisions on the granting or refusal of refugee status. A working group established in March 2002 within the Ministry of the Interior is designing strategies to improve the co-operation between institutions involved in the asylum process. Co-operation at international level has increased. In order to strengthen administrative capacity, training has been increased regarding the new legislation in place.

In 2001, 11 persons applied for asylum and one of them was granted refugee status. The number of asylum seekers was thus reduced significantly compared to 2000 (87 persons).

In the field of **police co-operation and the fight against organised crime**, progress was made in terms of further alignment in the field of organised crime and trafficking as well as on strengthening the administrative capacity of the police. Amendments to the Criminal Law, which aims at aligning Latvian legislation with regard to trafficking in human beings and organised criminal groups, entered into force in April 2002. In June 2002, an intergovernmental agreement between Latvia and Uzbekistan on co-operation in fighting terrorism, organised crime and drug trafficking was concluded.

In view of the conclusion of a co-operation agreement with Europol, in April 2002, a specialized attaché of the Ministry of the Interior was posted to The Hague to act as a liaison officer when the agreement is concluded. During the reporting period co-operation agreements on police co-operation were signed with Belgium, the Netherlands, Sweden, Georgia, the Russian Federation and Slovakia.

As regards administrative capacity, funding from the state budget increased to € 337 621 for 2002 and police salaries were increased by 11%. In order to increase efficiency of the police structures, reorganisation has continued. The Economic Police Bureau has been reorganized, particularly with respect to strengthening the fight against smuggling, money laundering, counterfeiting and product piracy. To fight against the smuggling of goods, the National Customs Board is increasingly applying risk-analysis as well as different information systems. Latvia has also streamlined its structure in order to increase the efficiency and co-ordination of state anti-crime policy.

As regards the **fight against terrorism**, in December 2001 Latvia signed the 1999 International Convention for the Suppression of the Financing of Terrorism.

As far as the **fight against fraud and corruption** is concerned (*see also Section B.1.1 - Democracy and the rule of law – Anti-corruption measures*), the renewed Corruption Prevention Programme (adopted in May 2001) has been further implemented. Several new legislative instruments have been developed. Amendments to the Criminal Law were made in order to implement the Council of Europe Criminal Law Convention on Corruption, and entered into force in April 2002. Latvia is continuing preparation for full co-operation with OLAF upon accession.

In order to create an effective implementing capacity and improved inter-institutional co-operation, the Anti-Corruption and Combating Bureau is being established following the adoption of the Law on the Anti-Corruption Bureau in July 2002. A series of seminars concerning the investigation of corruption cases have been held for judges, prosecutors, policemen and representatives of the mass media.

In the field of **drugs**, no new legislative developments can be reported, but implementation of the National Strategy for Drug Control and Drug Abuse Prevention 1999-2003 continued. Preparations for participation in EMCDDA (European Monitoring Centre for Drugs and Drug Addiction) and Reitox have commenced and the necessary legal and institutional framework for the National Focal Point (NFP) is being developed. Co-operation between institutions has been further strengthened. Particular attention is being paid to reducing the number of drug users and drug-related crime.

In order to strengthen the capacity of institutions dealing with drug prevention and combating issues, training activities have continued on issues such as investigation of drug crimes, smuggling of drugs, precursor control and gathering of evidence. 279 border guards have been trained in detecting risk groups and in identifying narcotic substances.

Regular information exchange and co-operation between the Drug Enforcement Bureau and the State Border Guard as well as other bodies concerned has been intensified in order to prevent use, illicit trafficking and smuggling of drugs. In 2001, the Drug Enforcement Bureau detected 134 more drug-related crimes than in 2000 and drug detection on the border has also increased somewhat.

As regards **money laundering** (*see also Chapter 4 – Free movement of capital*), legislative alignment has continued and the capacity of the institutions has been strengthened. In June 2002, amendments to the Law on Prevention of Laundering of the Proceeds Derived from Crime, providing, *inter alia*, for the freezing of financial transactions linked to terrorism, were adopted.

The administrative capacity was strengthened through the establishment of specialised divisions dealing with money laundering issues in the Economic Police Bureau (7 staff positions) as well as in the Financial Police of the State Revenue Service (4 staff positions). In order to strengthen the capacity of the Financial Intelligence Unit (FIU), additional resources are budgeted for 2003 to finance an increase in human resources (6 more staff) as well as for information technology systems. Training organised by the FIU for financial institutions and law enforcement bodies has continued.

The number of cases forwarded by the FIU for further investigation has increased compared to previous years (59 cases in 2001).

With regard to **customs co-operation**, several Memoranda of Understanding between Customs and other Latvian institutions and businesses have been agreed and co-operation agreements with 14 countries have been concluded. Preparations for joining the Naples II Convention on Mutual Assistance and Co-operation between Customs Administrations have commenced.

As concerns **judicial co-operation in criminal and civil matters**, Latvia has made further progress in aligning in the field of criminal matters. Amendments to the Criminal Procedural Code aimed at aligning with EU requirements on such issues as extradition and sentenced persons entered into force in June 2002. The 1980 Hague Convention on the Civil Aspects of International Child Abduction entered into force in February 2002 and the 1980 Convention on the Recognition and Enforcement of Decisions Concerning Custody of Children has been ratified, and entered into force in August 2002. In the first quarter of 2002, there were 198 incoming requests and 99 outgoing requests for legal assistance. During the reporting period a manual for international legal co-operation for judges as well as a National Action Plan were prepared. Training of judges and court staff on legal co-operation has continued.

Overall assessment

As regards **data protection**, EC requirements in this field have been largely implemented. The 1981 Convention of the Council of Europe on the Protection of Individuals with regard to Automatic Processing of Personal Data entered into force in September 2001. In order to improve national legislation on personal data protection, including its extension to the police sector, and the independence of the State Data Inspectorate further legislation needs to be adopted. Despite recent positive developments, further strengthening of the Inspectorate in terms of staff and resources appears nonetheless necessary. In addition, Latvia needs to ensure effective

implementation of Recommendation No R (87) of the Committee of Ministers of the Council of Europe (police data) as well the relevant provisions of the Europol and Schengen *acquis*, including designation of a national data protection supervision authority of the Schengen Information System in due time.

Latvia has continued to advance on **visa policy**, and its legislation is now broadly in line with the *acquis*. It is now essential to adopt all the necessary provisions and to put in place the necessary structures in advance of accession in order to ensure effective implementation upon accession of the new visa *acquis*. While Latvia has further extended the visa-free regime to several countries, this alignment needs to be completed. The adoption of the envisaged new Law on Immigration together with implementing regulations and instruction will be essential to address the remaining shortcomings in this field.

While progress was made regarding the uniform format for visas in line with the *acquis*, Latvia should continue efforts to align with the rules of the Common Consular Instructions and to ensure proper functioning of the visa-issuing procedures, administrative management and organisation. Enhanced co-operation between the different authorities dealing with visa issues should be promoted further. The development of the on-line Unified Visa Information System (UVIS) is on track. Its extension to all border checkpoints and diplomatic and consular institutions needs now to be ensured.

As regards external borders, strengthening of border controls remains a priority for Latvia. Despite continued efforts in this field in terms of legislation, training and equipment, an integrated border control approach, integrating the numerous services involved, is still in its infancy. It will therefore be of utmost importance to continue developing the 'Integrated Border Control System' and to implement the State Border Guard Development Concept 2001-2005. It is essential that the State Border Guard can ensure effective control for the entire border, including the sea border. The newly created Sea Border Guard should take full responsibility for ensuring that this objective regarding the sea border is achieved. The establishment of the integrated sea surveillance system should be completed.

Encouraging measures have also been taken with regard to improved equipment, salaries and training. Whereas co-operation among bodies involved in border controls has been addressed through agreements, further efforts are necessary to achieve an integrated management approach, including co-ordinated and consolidated structures and a common unified border-check procedure. This essential component of an integrated control system should help Latvia to achieve more effective results.

The equipment of Latvia's border crossings with technical devices for the detection of falsified and counterfeit documents has advanced well. The preparation for Latvia's future participation in the envisaged False and Authentic Documents (FADO) system should be continued. Equally important is the full implementation of the State Border Guard electronic information system (RAIS) as well as the on-line system border control information system (REIS).

On the basis of the existing high-quality **Schengen** Action Plan, implementation should continue. In order to prepare for the future participation in the Schengen Information System, the required information technology infrastructure and national registers need to

be developed. The preparatory work started on the establishment of the National Schengen Information System and the SIRENE bureau should be continued.

Latvia should also continue efforts to sign a new agreement with the Russian Federation on mutual travelling of citizens and the fostering of practical co-operation. Legislation on **migration** is broadly in line with the *acquis*, but further alignment is still necessary. Latvia needs to adopt and implement the Administrative Violations Code as well as the outstanding Law on Immigration, which should address the remaining shortcomings, including on carrier liability and entry and stay of third-country nationals.

The establishment of the Immigration Service at the State Border Guard is considered to be a positive step, but co-operation between all bodies responsible for migration requires continued improvements. Training for staff of these institutions should also continue on such issues as EURODAC, family reunification principles, accelerated procedure, detention and appeal and recognition of travel documents.

Readmission agreements have now been concluded with Austria, Benelux, Croatia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Liechtenstein, Lithuania, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland, Ukraine and Romania. Latvia is encouraged to ratify its outstanding readmission agreements and sign further agreements with Member States, candidate countries and third countries such as Belarus and the Russian Federation.

Regarding implementation, during 2001 the number of expelled persons was 238. During the first three months of 2002, 36 persons were expelled. In mid-2002, there were 44 people in the illegal immigrant detention centre in Olaine. The number of expelled persons has remained at the same level over the past years. In general, illegal immigration does not seem to be a particular problem in Latvia at present, but capacity to fight illegal immigration should be further increased and the activities initiated should be continued. The planned separation of convicted criminals from expelled and illegal migrants at the detention centres needs to be implemented and training for the officials of the Immigration Service and the Office of Citizenship and Migration Affairs should be further enhanced, including training on organised illegal trafficking. The establishment of a temporary residence centre for illegal migrants and asylum seekers in Daugavpils for the accommodation of approximately 80 persons should continue. Data exchange with other systems such as UVIS and the RAIS should be improved.

In the field of **asylum**, legislation has been brought further in line with the *acquis* through the adoption of the Law on Asylum. Implementation of the new legislation, including issuing and registering residence permits to refugees and persons granted alternative status and respecting in all situations the principle of *non-refoulement*, will be essential. Moreover, particular attention needs to be paid to the adequate implementation of the accelerated procedure and the 'third country notion' as well as to minimum guarantees for appeal.

As regards the administrative capacity, measures taken largely correspond with the needs identified in this field. Despite the low number of asylum seekers in Latvia, particular attention should continue to be paid to improving co-operation between the various institutions involved. Latvia should now prepare for ratification of the criteria and mechanisms for determining the responsible member state (Dublin Convention) including provisions on databases, fingerprinting and data protection and the

establishment of the EURODAC Regulation. The development of the Common Information System for Migration and Asylum Issues is equally important. Altogether, 8 persons have been granted refugee status since 1998.

Regarding **police co-operation and the fight against organised crime**, Latvia has advanced in terms of acceding to the relevant international regulatory instruments and establishing a legal basis for co-operation in the fight against organised crime including the restructuring and upgrading of institutions to address new forms of crime more effectively. However, further legislative alignment is necessary. Latvia should adopt further amendments to the criminal law to align with the provisions of the 2000 UN Convention against Transnational Organised Crime (Palermo Convention), and sign and ratify the third additional Protocol to this Convention on firearms; and to align with the provisions the UN Cybercrime Convention, and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime. Latvia also needs to complete accession to the Protocol against trafficking in human beings and to the Protocol against smuggling of migrants by land, sea and air, supplementing the United Nations Convention against Transnational Organized Crime. Moreover, the UN Convention for the Suppression of the Financing of Terrorism and other relevant international instruments need to be ratified. Latvia should also sign and ratify the Second Additional Protocol to the European Convention on Mutual Legal Assistance in Criminal Matters of 8 November 2001.

Latvia should continue efforts to align as soon as possible with the *acquis* and other international standards on the fight against the misuse of the financial system, in particular money laundering and terrorism financing. Latvia needs to adopt amendments to the Personal Data Protection Law in order to ensure that all prerequisites for the signature of the co-operation agreement with EUROPOL are completed.

As regards implementation, particular progress has been made in restructuring and strengthening the police, but Latvia needs to step up means to allow police forces to combat more effectively specific forms of organised crime, such as trafficking in human beings and trafficking in drugs, and new types of crime, such as financial crime, money laundering and "high-tech" crime. This requires an enhanced flow of information between institutions working in the field of law enforcement, including prosecutors and the judiciary, as well as the large-scale availability of computer-assisted search facilities, and continued training on the fight against specific types of crime. Further work is also necessary to develop reliable national statistical instruments for measuring crime rates as well as new methods of crime investigation, including development of forensic investigation. The administrative capacity of the State Police, particularly the Bureau for Combating Organised Crime and Corruption, should be increased.

Regarding the **fight against fraud and corruption**, good progress has been made in terms of legislative alignment, and the institutional framework has now been put in place. Latvia has largely implemented its Corruption Prevention Programme and important legislation on procurement, prevention of conflict of interest of officials and party financing has been adopted. Its full implementation should now become a priority for Latvia. The administrative capacity of the newly established Anti-Corruption Bureau should be further increased and its independence strengthened in order to ensure effective implementation and improved inter-institutional co-operation on the anti-corruption policy. Latvia should pay more attention to the fact that prevention through transparency and accountability standards is as important as repressive tools.

Latvia should also enhance preparations with a view to ratifying the 1995 Convention on the Protection of the EC's Financial Interests and its Protocols, including with regard to the criminal offence of corruption for EU officials, and adopt amendments to the Criminal Code in order to fully align with the provisions of this Convention, in particular with the elements of the definition of fraud, the criminal liability of heads of business and the liability of legal persons.

Latvia is party to the main international conventions listed under the *acquis* in the field of **drugs**, but still needs to complete preparations for accession to the 1995 Council of Europe Agreement on Illicit Traffic by Sea, implementing Article 17 of the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. While implementation of its National Strategy for Drug Control and Drug Abuse Prevention 1999-2003 has continued, work on a revised strategy, in line with the EU Drugs Strategy 2000-2004, and on an Action Plan for 2002-2006 should be completed.

While Latvia has taken a number of steps to strengthen the capacity of institutions dealing with drug prevention and combating issues, including training and improved information exchange, both drug-related crime and the increasing numbers of drug users still remain a significant problem. Whereas registered drug related crimes decreased from 495 to 323 in the first half of 2002 compared to the same period in 2001 and also the number of persons prosecuted fell significantly, seizures of drugs by the police increased. Despite reinforced border controls by drug experts, the detection rate remains relatively low and no clear supply reduction strategy has been designed. Latvia particularly needs to increase its capacity to fight drug trafficking by strengthening the administrative capacity of its law enforcement services, especially the police, customs and border guards and the Drug Enforcement Bureau, and improving their co-operation. Training of officials should continue, particularly regarding risk analyses, controls of drugs and precursors, pre-arrival controls and use of related information systems. Further work is necessary to prepare Latvia for integration in the common European Information Network (Reitox) and to ensure full participation in the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA). The necessary legal and institutional framework for the National Focal Point of the Drug Information System should be completed and the capacity of National Focal Point be further strengthened. Co-operation with Member States and with Europol should be intensified.

As regards **money laundering**, legislative alignment needs to be completed and its enforcement should be further improved. Latvia should adopt the respective amendments to the Law on the Prevention of the Laundering of Proceeds from Crime in line with the *acquis* and ensure its implementation. Despite the strengthened administrative capacity of the services involved in this field, and a clear increase in the number of investigations and of launched criminal cases (37 in total), the current control and repression of fiscal fraud, bankruptcy, money laundering, corruption and common economic crimes still need significant improvement. Further strengthening of the human and financial resources of the Financial Intelligence Unit (FIU) as well as the other specialised bodies acting in this field remains necessary. Training activities for the FIU, economic police, prosecutors, customs officials, bank managers and employees should be further enhanced.

With regard to **customs co-operation**, Latvia's legislation is now largely in line with the *acquis* in this field as a number of Memoranda of Understanding between customs and other institutions as well as co-operation agreements have been concluded. The fight against corruption has been addressed through a number of measures, but still remains a

problem. The application of risk-analysis concepts has started. Generally, co-operation between customs and the police, the border guards and the FIU has improved through access to customs information, but the process should be intensified in terms of an integrated database and further inter-agency co-operation and regular forms of co-operation with business organisations. Customs should enhance training to increase their capacity to deal with special investigation techniques such as controlled deliveries, drug search, cross-border surveillance, hot pursuit and joint special investigation teams.

Latvia should continue its co-operation on and prepare for accession to and implementation of the Naples II Convention on Mutual Assistance and Co-operation between Customs Administrations upon accession as well as the CIS Convention on Use of Information Technology for Customs Purposes.

As far as **judicial co-operation in criminal and civil matters** is concerned, Latvia has ratified almost all the international conventions included in the *acquis*. Latvia still has to ratify the European Convention on the International Validity of Criminal Judgements. Latvia has joined all the relevant Conventions of the Council of Europe with the exception of the Convention on Cybercrime. It has signed bilateral agreements on judicial co-operation with several countries. Latvia should take further measures to ensure implementation of the Community instruments in the area of judicial co-operation in civil matters, notably as regards mutual recognition and enforcement of judicial decisions. Direct contacts between competent judicial authorities should be made possible.

Latvia should also take steps to ensure full implementation upon accession of recently adopted instruments concerning judicial co-operation in criminal matters, such as the Framework Decision on the European arrest warrant and execution of orders freezing property or evidence. Latvia still needs to adopt and implement the new Criminal Procedure Code as well as the Law on Criminal Procedure, which will allow the implementation of the above-mentioned conventions on judicial cooperation in criminal matters as well as the new Civil Procedure Code. The administrative capacity of the department of the Ministry of Justice responsible for judicial co-operation needs to be further strengthened and the number of staff at the Prosecutor-General's Office as well as the technical equipment to be further reinforced. In view of the further increase in incoming and outgoing requests, further training, including in foreign languages, remains necessary.

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

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia was starting from a low base in the JHA field and was facing considerable institutional problems in preparing itself for effective co-operation with EU JHA institutions. The Commission added that a major, sustained effort was required if Latvia was to have the possibility of meeting the Justice and Home Affairs *acquis* (present and future) in the medium term.

Since the Opinion, progress has been made, with significant progress being made in particular over the last two years, especially in terms of legal alignment. Latvia has also continued strengthening of the institutional capacity in this field. As most legislative

shortcomings have been addressed, efforts are now needed in particular to further enhance the implementation and enforcement capacity.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements in this area. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on finalising alignment (migration, money laundering, and protection of the financial interests of the European Communities, judicial co-operation), continued strengthening of border controls and further reinforcing the law enforcement agencies, with particular attention given to the fight against drugs and trafficking in general and co-operation between the various bodies involved in Justice and Home Affairs, particularly the bodies in charge of the fight against organised crime and corruption.

Chapter 25: Customs union

Progress since the last Regular Report

Latvia has achieved progress in the customs field as regards alignment and has continued restructuring and strengthening the administration.

As regards alignment of Latvia's legislation with the **customs *acquis***, in May 2002, the Parliament adopted amendments to the Customs Law, which aim at ensuring full compatibility with the *acquis* establishing the Community Customs Code. The Law on Customs Duty (Tariffs) was amended in December 2001 in order to bring Latvia's legislation further in line with the *acquis* on autonomous tariff quotas, tariff ceilings, tariff suspensions and to introduce the Generalised System of Preferences. Several implementing regulations have been adopted in the reference period, covering issues such as the deferment of payment of customs duties, free zones and warehouses, exportation, re-exportation, abandonment and destruction of goods and returned goods. The Government adopted legislation implementing the *acquis* regarding re-exportation, abandonment of goods, returned goods, destruction of goods, protection of intellectual property rights, customs declaration procedure and simplified clearance and summary declaration as well as storage of goods. Further legislation was adopted to ensure implementation of the EC Integrated Tariff (TARIC).

As far as **administrative and operational capacity** to implement the *acquis* is concerned, progress in modernisation of the customs services of the State Revenue Service (SRS) has been made. Modernisation of Latvian Customs is based on the SRS Customs Business Strategy for the years 2001–2005. The strengthening of the customs system appear to have resulted in an increase of 15% in total revenues collected by the Latvian Customs in 2001 as compared to 2000.

Regarding organisation and infrastructure, the investment programme to complete customs control points has continued and has benefited from increased budgeting in 2001. Additional financial resources have been also granted for the recruitment of 39 new staff in the National Customs Board (NCB), allocated to the enforcement division, the post-clearance and audit division and the newly established special operations and investigation division. In 2001, border control posts received modern computers and

special technical equipment (x-ray for control of postal dispatches, drug, explosives and metal detectors, etc.) for customs control.

In the area of intellectual property right protection, regular training activities for customs officers on counterfeiting and piracy issues have continued.

Since the last Regular Report, activities in the field of corruption prevention have continued. The issue of customs ethics is now part of the basic training of customs officials and customs brokers. As part of the fight against corruption, the rotation of officials exposed to high risk of corruption has continued.

Regarding computerisation, a customs information system, composed of several sub-systems, is in place. By April 2002 the computerised entry-processing system was implemented in 92 customs posts, while a new version was installed in only 7 customs offices. In 2001, about 20% of all customs declarations were submitted electronically. The implementation of the computerised entry-processing system has enabled optimisation of the number of customs posts to begin. At present, the number of the customs posts has been reduced by 51.

No new developments are to be reported in the area of Customs IT interconnectivity. The absence of project management structure and ownership for interconnectivity-related projects, coupled with weak national support in terms of human and financial resources, has left problems outstanding in all IT areas.

As regards co-operation, five Memoranda of Understanding were signed in 2001 with economic operators and law enforcement bodies to ensure effective controls, improving co-operation between Customs and other institutions. Furthermore, the use of a simplified declaration procedure with one operator has started on a pilot basis.

Latvia and the Russian Federation signed in April 2002 an intergovernmental agreement on mutual assistance in customs matters, which should further improve the exchange of information.

Overall assessment

Latvia's customs legislation is largely aligned to the *acquis* in this field. Nevertheless, further work will be necessary, especially in terms of implementation and enforcement. Moreover, as the full range of EC commercial policy measures and export refunds will not apply until accession, and these affect the context in which the provisions in areas such as non-preferential origin, inward and outward processing are applied, Latvia will have to take steps in this areas.

As regards administrative and operational capacity to implement the *acquis*, Latvia has still too many customs houses which should be replaced by a smaller number of larger, and modern inland facilities. The reorganisation of customs regions should continue, in particular for the Riga region. A separate budget for the National Customs Board's activities within the State Revenue Service should be established.

Continued efforts are necessary to improve border management, combat irregularities and corruption, improve capacity for risk assessment, intelligence and investigation, and to improve co-operation with other enforcement bodies.

With regards to IT interconnectivity, more support is necessary in both human and financial resources. In order to be ready to connect to the EC customs computerised systems, which is a precondition of managing the customs union and the internal market, the IT issue must be addressed at the highest level; if no urgent and serious measures are taken, Latvia will not be ready to connect in time for accession.

It is also important to continue training activities targeted at specific issues such as corruption, risk analysis as well as the fight against smuggling and counterfeit goods and to increase co-operation with other law enforcement bodies.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia would need to continue major efforts to align its legislation, organisation and staff to the duties that have to be carried out by a modern customs administration. In doing so it might be able to meet EC requirements in the medium term.

Since the Opinion, Latvia has achieved steady progress in aligning with the *acquis* in this area, and has almost completed the alignment of its customs legislation with the *acquis*. It has also gradually developed and reinforced the necessary administrative capacity, although a number of issues remain to be tackled in this regard. In terms of administrative capacity, the capabilities of the staff are satisfactory, but the necessary information technology systems are lacking.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements in this area. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to be ready for membership, Latvia's needs to focus further efforts on providing the necessary human and financial resources and management structure to make progress on computerisation in the customs area, including interconnection to EC information technology systems. Latvia should continue its efforts on further restructuring and streamlining of the territorial customs organisation. Further efforts should focus on strengthening the customs services' capacity to reduce waiting times at borders and to combat fraud and economic crime, in close co-operation with other enforcement bodies. Latvia should also take steps necessary to prepare for the application of measures and provisions that will be introduced only at the time of accession. Ongoing efforts to address the remaining shortcomings in this field should be stepped up, in particular with regard to the interconnection of information technology systems.

Chapter 26: External relations

Progress since the last Regular Report

Since the last Regular Report Latvia has continued to align with the *acquis* on common commercial policy and to co-ordinate positions and policies within the World Trade Organisation (WTO) with the EU, in particular with regard to the Doha Development Agenda negotiations. Steps have been taken to prepare for Latvia's participation in the EU development policy.

As regards the **common commercial policy**, upon accession Latvia will be required to align its tariffs with those of the EC. Latvia's applied tariffs currently average 4.2% (MFN) on all products, 13% on agricultural products, 7.9% on fishery products and 1.7% on industrial products. By comparison, EC tariffs currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

With regard to the *acquis* in the area of **dual-use goods**, legislation on a new list of strategic goods entered into force in March 2002. The new legislation on controls regarding export, import and transit of dual-use goods will provide further alignment to the *acquis*, although full alignment to the *acquis*, in particular the general export authorisations, can only take place upon accession. Latvia keeps the industry regularly informed of developments in this field.

As regards **bilateral agreements with third countries**, Latvia has concluded negotiations on a Free Trade Agreement with the Republic of Bulgaria and negotiations are proceeding with Israel and the Faeroe Islands.

With regard to **development policy**, co-operation and assistance, amendments to the Law on Customs Duty were adopted in November 2001, introducing a General System of Preferences regime in conformity with WTO-rules. Moreover, Latvia is adapting its development practices to the guidelines laid down by the OECD Development Assistance Committee and the EU Development Policy (Policy document of Latvia's participation in the EU Development policy). For the implementation of **humanitarian aid** initiatives, the authorities co-operate with Non-Governmental Organisations established in Latvia. Latvia has no specific budget allocation for development or humanitarian aid, but has granted aid on a case-by-case basis.

Overall assessment

The EU and Latvia have established a framework for co-operation regarding WTO issues at both ministerial and departmental level. Latvia has been supportive of EU policies and positions within the WTO framework, in particular during the preparation for and the launching of the Doha Development Agenda. The close cooperation should continue. Close coordination is needed and should continue to ensure the smooth alignment of Latvia's GATS commitments with the EC's commitments and MFN exemptions and steps have been defined to this extent.

Latvia is an observer to the WTO Government Procurement Agreement (GPA) and a signatory to the WTO Agreement on Trade in Civil Aircraft (ATCA) and the Information Technology Agreement (ITA). With regard to the WTO Agreement on Trade in Textiles and Clothing (ATC), co-ordination has taken place within the third stage of integration under the ATC to align Latvia's integration programmes with those of the EC, although some discrepancies remain.

If Latvia provides medium and long term export credits, further efforts are necessary to align with the *acquis*. Although progress in the field of dual use goods has been made, completion of alignment is necessary.

Latvia has bilateral free trade agreements with the Czech Republic, Hungary, the Slovak Republic, Slovenia, Poland, Estonia and Lithuania (Baltic Free Trade Agreement),

Ukraine, Turkey, Bulgaria and EFTA. Latvia needs to ensure that the Union is kept fully informed both about existing trade agreements and about any negotiations aimed at the conclusion of the new trade agreements with a third country. Prior to accession, Latvia will need to renegotiate or renounce all international agreements concluded with third countries that are incompatible with its future obligations as an EU Member State. Decisive steps are needed, as a matter of urgency, to bring bilateral investment treaties in conformity with the Treaty obligations. Failure to do so will mean that the conflict between the bilateral investment treaties and Treaty obligations will need to be resolved in the Accession Treaty.

Latvia's alignment with and future participation in the common commercial policy is administered by the Ministry of Economy and the Ministry of Foreign Affairs. The department of trade policy within the Ministry of Agriculture deals with agricultural trade issues (including WTO matters). Some upgrading might be needed in order to have the necessary administrative capacity upon accession, also with regard to participating in the EU's development and humanitarian aid policies. The administrative infrastructure, which needs to be in place with respect to customs services is discussed in the chapter on customs union (*Chapter 25 – Customs union*).

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia was well placed to meet Community requirements, provided existing trade barriers were eliminated so as to align more closely with the Community's trade regime.

Since the Opinion, Latvia has made gradual progress and has achieved a generally high level of alignment with the *acquis*.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on finishing the process of legislative alignment, on taking decisive steps, as a matter of urgency, towards the renegotiation or abrogation of its bilateral investment treaties in full conformity with its EU membership obligations, as well as on ensuring that the capacity exists to fully implement and enforce the *acquis* in this field upon accession.

Chapter 27: Common foreign and security policy

Progress since the last Regular Report

Since the last Regular Report, Latvia has made further progress in aligning its foreign policy with that of the European Union.

In the context of the regular **political dialogue** established by the Association Agreement, Latvia continues to align its foreign and security policy with that of the Union. It continues to participate actively in the framework of the Common Foreign and Security Policy, including the meetings at the level of Political Directors, European Correspondents and Working Groups.

Latvia is aiming to contribute by all means required to the development of European Security and Defence Policy as part of the Common Foreign and Security Policy and plays an active role in the context of the EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU).

As regards **alignment with EU statements and declarations**, Latvia is regularly aligning its positions with those of the Union and has continued to associate itself with the Union's **common positions, joint actions** and other Common Foreign and Security Policy instruments. Since October 2001, it has aligned itself with eight EU common positions and with the Joint Action of July 2002 on the EU's contribution to combating the destabilising accumulation and spread of small arms and light weapons.

Latvia's legislation on **international sanctions and restrictive measures** have already been brought into line with the *acquis*. The administrative capacity of the Ministry of Foreign Affairs and the Ministry of Defence has been further improved in order to meet the requirements of the Common Foreign and Security Policy.

During the reporting period, Latvia played an active role in the Capabilities Improvement Conference in November 2001 and in the EU +15 Defence Minister's meeting in May 2002.

In response to the 11 September events, on October 2001 Latvia adopted the action plan for combating terrorism, comprising a package of legislative, executive and regulatory measures with regard to national and international co-operation. In December 2001, Latvia signed the 1999 International Convention for the Suppression of the Financing of Terrorism. Latvia has also ratified the Rome Statute establishing the International Criminal Court in December 2001.

As regards defence cooperation, Latvia has made considerable efforts to support international peacekeeping missions. It has participated in SFOR, KFOR, ISAF and UN peacekeeping and observer operations. In January 2002 the Parliament approved the proposal to deploy an air movement control team in the operation *Enduring Freedom* in the vicinity of Afghanistan.

Overall assessment

Latvia is pursuing a policy of regional co-operation and good neighbourly relations. It is an active member of the Council of Baltic Sea States and closely co-ordinates its foreign and security policy with the other two Baltic countries. In the defence area, BALTBAT (the Baltic Battalion), BALTNET (Baltic Air Surveillance System) and BALTRON (Baltic Naval Squadron) are focal points of this co-operation. Latvia is preparing for military participation in the EU Rapid Intervention Force as of 2003; assets for the European Police mission have been put in place and participation in peace missions is ensured.

Latvia is seeking to strengthen its bilateral relations with neighbouring countries. Relations with Russia are characterised by openness for dialogue. The border agreement with Russia was finalised by Latvia, but still awaits final approval on the Russian side.

The Ministry of Foreign Affairs is connected to the Associated Correspondents' Network information system, through which the EU communicates with associated partners within

the CFSP. The functions of a Political Director and European Correspondent are fulfilled by different persons within the Ministry of Foreign Affairs, but close coordination is ensured.

Conclusion

In its 1997 Opinion, the Commission concluded that the assessment of Latvian foreign and security policy led to the expectation that as a member it could fulfil its obligations in this field.

Since the Opinion, Latvia has made steady progress in aligning with the CFSP *acquis*. The alignment of legislation is in general satisfactory at this stage and administrative structures are being put in place.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements in this area. Latvia is generally meeting the commitments it made in the accession negotiations in this domain.

In order to complete preparations for membership, Latvia's efforts now need to focus on ensuring that its foreign policy orientation remains in line with the Union's developing foreign and security policy, adopting the legislation on economic sanctions and finalising the development of the necessary administrative structures. In particular, Latvia should ensure that its national policies and practice conform to the EU's common positions, should defend these positions in international fora, and should ensure that all sanctions and restrictive measures can be duly implemented.

Chapter 28: Financial control

Progress since the last Regular Report

Latvia has continued to make good progress in this field since the last Regular Report.

The **Public Internal Financial Control** (PIFC) systems have evolved further. In December 2001, a Regulation was adopted obliging state enterprises and state institutions subordinated to ministries to establish the internal audit function. The scope of the internal audit system has now been extended to all budget income and spending centres. No new developments can be reported with regard to the Internal Audit Law. Regulations were adopted in January 2002, introducing the concept of managerial accountability in public agencies and providing for its implementation.

As regards administrative capacity in the area of internal audit, the Internal Audit Department of the Ministry of Finance, which is responsible for harmonisation of the internal audit methodology in the public sector, has received 3 new posts in addition to the 11 staff in place in 2001. Training of staff of the Internal Audit Department has continued through seminars, courses and conferences. A human resources development plan is currently being elaborated to provide for staff training on a regular basis. In terms of implementation guidelines further progress has been achieved. An Audit Charter has been developed and approved. The number of auditors in the government sector has now been increased to 196.

Latvia has made further progress in the area of **external audit**. A new State Audit Office Law amending the existing law entered into force in June 2002. It now ensures the operational, functional and improved financial independence of the State Audit Office (SAO). The Law provides for a wide scope of audits including the authority to audit final beneficiaries of EC funds. The SAO has adopted INTOSAI (International Organisation of Supreme Audit Institutions) auditing standards and carries out financial and performance audits. The SAO has also developed an audit manual.

To ensure implementation of the new Law, 15 posts have been created in the SAO, in addition to the 201 staff in place. The SAO's Strategic Development Plan 2000–2005 continues to be implemented. It provides for training for 80 staff members, currently under way, in the area of financial and performance audit. The first pilot audits were carried out in close co-operation with the European Court of Auditors and were completed in January 2002. A common audit methodology and techniques have been adopted and tested.

Latvia has made some progress in the area of **control over structural action expenditure**. In December 2001, the Commission adopted a Decision provisionally conferring management authority for SAPARD, on a fully decentralised basis, to the SAPARD Agency. The Commission's guidelines concerning certification of Latvia's accounting procedures have been respected and judged satisfactory. The Internal Audit Department is setting up a database for reported irregularities in the administration of SAPARD and ISPA. Concerning ISPA implementation, in general, good progress has been made to establish a management and control system. Latvia has started to establish quarterly reports on irregularities in SAPARD or ISPA programmes. Latvia has already started the gap assessment exercise which is the first step leading to the extended decentralised implementation system (EDIS).

The Latvian authorities have put forward the Ministry of Finance's Internal Audit Co-ordination and Methodology Division as anti-fraud co-ordinating service, responsible for the co-ordination of all activities related to the **protection of the financial interests of the European Communities**. Further clarifications are needed in this respect.

Overall assessment

Although in Latvia the Public Internal Financial Control (PIFC) system seems to be generally in place, legislation needs to be adopted to ensure the functional independence of internal audit, including procedures for the appointment and dismissal of auditors, audit planning and reporting. The new Framework Law on Internal Audit currently under discussion needs to be adopted. Further efforts should aim at strengthening managerial accountability, in particular by refining the Law on Budget and Financial Management. Guidelines for setting performance targets for all budgetary bodies should be developed. A Code of Ethics for auditors in Latvia needs to be endorsed. Financial management and control manuals for national and EC funds remain to be completed. Further work is required to develop the concept of audit trails and prepare audit trails for Community funds.

Regarding external audit, the new State Audit Office Law has further strengthened the financial independence of the State Audit Office (SAO) by abolishing the current practice of financing the SAO from fines and surcharges imposed on auditees. A formal mechanism in Parliament to discuss the SAO's reports and recommendations remains

however to be introduced. In addition, INTOSAI (International Organisation of Supreme Audit Institutions) auditing standards including guidelines and the audit manual need to be approved and implemented. Latvia needs to further develop the operational capacity of the SAO.

With regard to the control of structural action expenditure, substantial efforts need to be made in order to enhance Latvia's capacity to manage pre-accession funding and future structural funds, in particular through the establishment of clear PIFC rules and procedures, together with substantial reinforcement of Latvia's administrative capacity in this regard (*see also Chapter 21 – Regional policy and co-ordination of structural instruments*). The development of mechanisms for the rapid recovery of lost EC funds is equally important. Latvia needs to reinforce and accelerate efforts leading to the extended decentralised implementation system before mid 2003 in order to allow EDIS accreditation to be achieved in the second semester of 2003.

With regard to the protection of the European Communities' financial interests, Latvia needs to ensure operational independence of the anti-fraud service responsible for the co-ordination of all legislative, administrative and operational aspects of the protection of the European Communities' financial interests. Latvia also needs to put in place the necessary legislative and administrative framework to allow this service to carry out its co-ordinating role, including a definition of relations with other institutions or bodies involved in the protection of the Communities' financial interests.

Conclusion

In its 1997 Opinion, the Commission concluded that Latvia would need to make substantial efforts to establish the necessary management and control mechanisms to cope with EU requirements. The Commission added, however, that if the necessary initiatives could be taken in this respect, this field would not appear to represent a major obstacle, in the medium term, for Latvia's accession.

Since the Opinion, Latvia has made good progress in developing its Public Internal Financial Control systems as well as completing alignment in the field of external audit.

Negotiations on this chapter have been provisionally closed. Latvia has not requested any transitional arrangements. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on completing the establishment of a well-functioning Public Internal Financial Control system in compliance with EC requirements, including, in particular, the completion of alignment of internal audit legislation so as to ensure functional independence of the internal auditor. Latvia will have to take all the necessary measures to ensure that the use of EC pre-accession funding is adequately managed and controlled and further develop its legislative framework and administrative capacity to protect the Communities' financial interests.

Chapter 29: Financial and budgetary provisions

Progress since the last Regular Report

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

Concerning the **national budget and EC co-financed measures**, Latvia has concentrated its efforts on improving the budget planning process in the context of the medium-term budget planning framework. The planning mechanism now provides for planning of EC co-financed measures as well as national co-financing for Structural and Cohesion Funds assistance (included already in the 2002 state budget).

Some progress has been achieved in terms of development of the supporting systems for budget planning and training of staff. Regarding forecasting capacities, a model for macroeconomic analysis has been developed and an expenditure model of the central government and local government budget elaborated. Work on the elaboration of short-term expenditure forecasts of the state budget has been started. The IT system for budget planning has somewhat improved.

Preparations for the application of the **own resources system** have continued. As regards administrative capacity, the institutions which will participate in the system of own resources are in place with the exception of sugar levies. The inter-ministerial working group under the management of the Ministry of Finance has continued its activities. Its task is to co-ordinate the establishment of the necessary procedures, infrastructure and capabilities to fulfil the administrative conditions in the area of own resources. The working group should be replaced by a permanent own resources unit in the Ministry of Finance to co-ordinate the calculation, control and payment of own resources and contacts with and reporting to the Commission in this area. Latvia has taken administrative steps to ensure adequate co-ordination between the various authorities involved in the application of the system of own resources.

Overall assessment

Latvia has further advanced in strengthening its budgetary rules, but particular efforts are still necessary to bring its budgetary framework further into line with the standards generally applicable in the Community. Evaluation and monitoring procedures for programmes and projects need to be improved.

Overall preparations for application of the *acquis* on own resources are progressing well, but sustained efforts continue to be required with regard to the build-up of technical and administrative capacity. Moreover, Latvia needs to develop its reporting system on cases of fraud and irregularity. As regards traditional own resources, Latvian customs legislation is largely in line with the EC *acquis*, but further harmonisation should be carried out. Particular efforts need to be made with regard to certain reporting and accounting requirements. The systems for 'A' and 'B' accounts are still to be set up in the National Customs Board as well as in the National Tax Board for sugar levies. The central accounting system for customs duties at the National Customs Board has to be modified to meet 'A' and 'B' account requirements. The final organisation and procedures for sugar levies remain to be established. Reliable data transmission between the customs clearance system and the central accounting system needs to be ensured. Accounting methods for post-clearance debt recovery still remain to be aligned with Community

requirements. Moreover, the EC Integrated Tariff (TARIC) interoperability of the customs clearance system needs to be established.

As regards value added tax (VAT), Latvia adopted legislative amendments in November 2001, but further efforts are required in this field in order to reach full alignment with the *acquis*. For the purposes of own resources, considerable efforts need to be made with regard to the calculation of the weighted average rate (WAR) in accordance with the ESA-95 standard and to determine the impact on the VAT base of any special arrangements agreed under the Taxation Chapter. Latvia should continue to participate in the VAT simulation exercise, which is the key tool for effectively testing Latvia's capacity in the field of the VAT resource. Sustained efforts are also needed to improve the actual collection and control of VAT.

The calculation of GNP is generally in line with the *acquis* requirements. Nevertheless, sustained efforts continue to be required regarding the ongoing process of quality and methodology improvements in the calculation of GNP and the national accounts, including completing their exhaustiveness and fine-tuning the implementation of the ESA-95 concept.

As regards administrative capacity, all the institutions necessary for applying the own resources system are in place, except for sugar levies. Efforts are required to increase the financial and human resources in the departments of the Central Statistical Bureau responsible for compiling the national accounts and calculating the GNP estimate.

With regard to the control of future EC own resources, Latvia should continue its efforts to set up effective instruments to combat VAT and customs duty fraud so that the financial interests of the EC can be protected. In addition, further efforts will be required to strengthen the administrative capacity in the context of the relevant policy areas described elsewhere in this report, such as Financial Control, Agriculture, Customs, Taxation and Regional Policy, and to calculate the GNP in a reliable and accurate way.

Conclusions

In its 1997 Opinion, the Commission concluded that, in order to ensure that own resources were established, monitored and made available in line with Community regulations, Latvia would have to overhaul its existing customs system. Furthermore, for the purposes of accurately calculating the GNP resource considerable improvements would have to be made to the national accounts to ensure that they were reliable, homogeneous and complete. The Commission added that improving the statistics would also be essential for drawing up the VAT own resources base, which would mean bringing Latvia's VAT system fully into line with the Community directives.

Since the Opinion, Latvia has made considerable progress in these areas, in particular as regards the alignment of its customs system and progress towards applying the ESA-95 concept. The legal framework for budgetary management and for the transparency and efficiency of financial flows to and from the EC budget is largely in place, but needs to be completed. The institutional structures are generally in place, but further strengthening is essential.

Negotiations on this chapter continue. Latvia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Latvia's efforts now need to focus on the strengthening of its technical and administrative capacity. In particular, Latvia needs to focus on the calculation of the VAT base, setting up the necessary procedures for sugar levies and achieving TARIC-interoperability of the customs clearance system. Also the exhaustiveness of the national accounts should be guaranteed and the ESA-95 concept fully implemented so as to ensure the capacity to establish properly and make available the country's contribution to each of the own resources of the Communities. Latvia needs to put in place a permanent own resources unit that will be responsible for the calculation, control and making available of own resources by the date of accession.

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

Applicant countries are required to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. Primary and secondary legislation alone represents a considerable volume of texts, roughly estimated at 60 000-70 000 pages of the Official Journal. In the framework of the translation of the *acquis*, the Court of Justice has defined a set of key judgements to be translated as a priority (representing about 15 000 pages). To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a dedicated database has been set up to act as a repository of all translated acts and as a tool through which candidate countries forward their translations to the Commission and the Council. The legal revisers of the Commission and the Council vet the submitted texts; they meet regularly and liaise with representatives of the centralised Translation Coordination Units in each country.

The translation of the *acquis* is the responsibility of the Translation and Terminology Centre (TTC) established in 1996, which reports to the European Integration Bureau. The TTC is responsible mainly for the translation of EC legislation into Latvian and the translation of Latvian legislation into English. Translation priorities are established in co-operation with the line ministries and approved for each quarter by the Council of Senior Officials.

As regards EC legislation translations, the TTC employs 12 revisers, 9 terminologists, 4 in-house and 14 freelance translators, and 4 translation assistants. For the translation of Latvian legislation into English the TTC employs 9 specialists. All translations produced by the TTC go through a terminology check and a revision stage. Terminology is an important part of the work done by the TTC. By May 2002 the TTC terminology database contained 40 117 terms. In the framework of a project with the Parliament of Latvia, the TTC participates in the elaboration of terminology for the *Eurovoc* Thesaurus.

As at September 2002, 32 700 pages of revised text were registered in the dedicated Commission database. According to Latvian sources, by May 2002, more than 44 000 standard pages of EC legislation had been translated and fully revised into Latvian, of which 16 240 pages were translated between June 2001 and May 2002. Most of the translations have been concentrated on matters dealt with by the Ministry of Agriculture (53.8 %), followed by the Ministry of Finance and the Ministry of Environmental Protection and Regional Development (5.4 % each). All the primary legislation of Latvia has been translated into English. Sustained further efforts are required in this area.

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

3.3. General evaluation¹⁹

Since the Opinion, Latvia has made steady progress in aligning its legislation with the *acquis*, in particular during the last 2 years. As a consequence the majority of the primary legislation has been put in place. At the same time, considerable efforts have been made to strengthen its administrative capacity, albeit not to the same extent as legislative alignment.

Over the past year, Latvia has further advanced in completing alignment and creating or restructuring related specialised bodies in the vast majority of areas. It has as well intensified training in most areas with a view to complying with the requirements of the *acquis*.

Overall, Latvia has achieved a high degree of alignment with the *acquis* in many areas, and is well advanced towards reaching adequate administrative capacity to implement the *acquis* in most fields. Further efforts remain to be made, in particular regarding its administrative capacity in most fields, as well as completion of legislation in a number of sectors. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

The preparation for participation in the internal market is well advanced and Latvia has achieved a good level of alignment in this area. As regards *free movement of goods*, the legal and institutional framework is generally in place. There has been sustained development of the standardisation system, which needs however to be reinforced. The reform of the market surveillance system and its infrastructure, including on food safety and in the field of public procurement, requires further strengthening. The process of bringing Latvia's legislation and structures in relation to the *free movement of persons* into line with the *acquis* has developed satisfactorily, although further efforts are required, especially on mutual recognition of professional qualifications as well as on strengthening institutional capacity. In the area of *freedom to provide services*, legislative alignment has advanced, notably regarding financial services and banking, but further work remains necessary regarding insurance and securities. In the area of *capital movements*, legislative alignment is well advanced, but the process needs to be completed as regards capital movements and payments. The administrative capacity has been put in place in this field, though further reinforcement remains necessary. On *company law*, an important development was the recent entry into force of the Commercial Code, which now needs to be implemented. While Latvia's legislation is well advanced in the field of intellectual and industrial property rights, effective action to fight against piracy and counterfeiting remains a challenge. In the area of *competition*, Latvia's legislative alignment, administrative capacity and enforcement record is reasonably advanced, but efforts should continue to develop a track record on effective implementation of competition legislation.

As regards *customs*, legislation is largely aligned, but organisational restructuring and implementation needs to continue, as it does for *taxation*, where legislation needs to be completed on direct and indirect taxation. Latvia should step up its ongoing legislative work, and urgently speed up its preparations for electronic interconnectivity. For both areas, Latvia has committed itself to introducing adequate information technology

¹⁹ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

systems so as to allow the exchange of electronic data with the Community and its member states. Significant further work is required as a priority for these systems to be operational by the date of accession.

Latvia has made further progress in the field of *agriculture* as well as more recently through upgrading of administrative structures with a view to the implementation of the Common Agricultural Policy. The establishment of the Food and Veterinary Service as the joint body responsible for controls of the entire food chain and the accreditation of the SAPARD agency constitute a significant achievement. However, important challenges lie ahead to complete alignment, and to reinforce the institutional capacity to implement the Common Agricultural Policy and its implementing measures, including the paying agency, the Integrated Administration and Control System (IACS) and the Common Market Organisations (CMO). Particular efforts remain necessary in the field of veterinary and food safety controls as well as on upgrading of food establishments to Community Standards. As regards *fisheries*, Latvia's legislation has been aligned to a reasonable extent, although there are gaps, notably as regards structural actions and market policy. The administrative structures have been partially established. Latvia's efforts now need to focus on further reinforcing administrative capacity and ensuring sufficient funding.

While Latvia's legislation is to a great extent in line with the *acquis* in the field of *transport*, the relevant framework laws (with the exception of maritime transport) are in place and the administrative capacity is being strengthened. Further efforts are necessary to complete the alignment process notably in the rail and maritime sectors as well as regarding administrative capacity in road, rail and air transport. The recent increase in capacity regarding maritime safety and Flag State performance needs to be further enhanced.

A significant step forward was the adoption of the new Labour Code in the field of *social policy and employment*. Legislative alignment in this field is well advanced, but needs to be completed. Effective implementation and enforcement regarding labour law, health and safety and public health remains important. In the field of *energy*, a reasonable level of alignment of legislative and institutional capacity has been achieved, but this process needs to be completed, in particular regarding the internal energy market (electricity and gas), oil stocks, increased energy efficiency and reinforcement of the administrative capacity of the various bodies. Latvia has achieved considerable progress in aligning with the *environmental acquis*. This process needs to be completed and the administrative capacity needs further strengthening, especially regarding inspections, co-operation and coordination at all levels. Investments should be enhanced.

With the adoption of the Law on Telecommunication and the establishment of the Public Utility Commission as regulator, the legislation is largely aligned and the institutions are in place. However, particular efforts are necessary with a view to a further liberalisation of the *telecommunications* market, the strengthening of the independence and effectiveness of the regulator and legislative alignment in the field of postal services. Particular progress was made recently in terms of institutional strengthening in the field of culture and audio-visual policy, where Latvia's legislation is largely in line with the *acquis*.

In the field of *justice and home affairs*, significant progress has been made in terms of legal alignment as well as continued strengthening its institutional capacity. Latvia's

efforts need now to focus on completion of legislative alignment, especially on migration, money laundering, and protection of the financial interests of the European Communities and judicial co-operation and implementation of the high quality Schengen Action Plan. Further reinforcing of the law enforcement bodies is needed, with particular attention to be paid to the fight against drugs and trafficking in general, smuggling, fraud, corruption and organised crime, including through improved cooperation between the various bodies involved. Strengthening of integrated border controls and completion or upgrading of structures also remains an important priority.

As for *regional policy and the co-ordination of structural instruments*, progress was made recently in preparing for the implementation of structural policies and designation of the main institutions involved. However, efforts will need to focus on building up adequate and efficient administrative capacity for the management of the Structural Funds and Cohesion Fund at all levels. Moreover, preparation of an up-to-standard draft Single Programming Document should be speeded up and inter-ministerial co-ordination and partnership needs to be ensured. Generally, all systems and procedures for effective monitoring, financial management and control should be reinforced and the legal framework has to be completed. There is a particular need for progress as regards the technical preparation of projects eligible for Community funding. Latvia has started to take measures to address the weaknesses identified, including through the allocation of human resources. Ongoing efforts need to be continued and substantially stepped up. The establishment of the Public Internal *Financial Control* system is relatively advanced, but needs to be completed, including legislative alignment.

Preparing its administrative capacity for membership remains one of the greatest challenges Latvia faces. With a view to the responsibilities Latvia will have to assume in managing and enforcing the *acquis* upon accession, a substantial portion of the necessary institutions have been restructured or created. While this process is well advanced, further substantial efforts are required to ensure that these institutions become fully operational. This is particularly important in areas such as internal market, agriculture, fisheries, transport, regional policy, environment, justice and home affairs and with regard to the implementation of information technology systems for taxation and customs. Finally, continued efforts are necessary to enhance Latvia's capacity to ensure sound, efficient and controllable management of EC funds.

In the accession negotiations, 27 chapters have been provisionally closed. Latvia is generally meeting the commitments it has made in the negotiations.

Bearing in mind the progress achieved since the Opinion, and in particular over the recent past, the level of alignment and administrative capacity that Latvia has achieved at this point in time, and its track record in implementing the commitments it has made in negotiations, the Commission considers that Latvia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Latvia needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

C. Conclusion²⁰

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

Regarding public administration reform, Latvia has continued to address the remaining reform issues and the legislative and administrative framework will be fairly comprehensive once the Civil Service Law and Public Administration Law are fully implemented. It is now important to speed up the introduction of the uniform civil service pay system and to ensure sufficient funding.

Overall, while most of the deficiencies of the judicial system have been identified, only part of them have been addressed. Efforts in this field need to be multiplied in order to ensure a thorough systemic reform, based on political support for modernising the judiciary and sufficient funding. The legislative framework still remains to be completed and the increasing backlog of court cases should be reduced. The issue of pre-trial detention requires continued attention. Further significant efforts to strengthen the *de facto* independence, efficiency and quality of the judiciary are needed. The upgrading of the infrastructure of courts needs to be completed.

Latvia has made further progress in the fight against corruption, which remains a cause for serious concern. The legislative framework has been improved, the institutional set-up has been strengthened and public awareness as well as the involvement of civil society are rising. However, further efforts are needed in order to complete the institutional set-up and to provide the new Anti-Corruption Bureau with the necessary means in order to achieve concrete results.

Latvia continues to respect human rights and freedoms.

Latvia has encouraged the further integration of non-citizens into Latvian society by removing language requirements in the election law, and increasing support to facilitate the naturalisation process, and through the activities of the Society Integration Foundation. The integration process needs however to be accelerated and sufficient funding made available to encourage naturalisation and language training in particular. Latvia should ensure that at all levels the implementation of the language law respects the principles of justified public interest and proportionality, Latvia's international obligations and the Europe Agreement.

The 1997 Opinion already acknowledged the reform efforts undertaken by the Latvian authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, in particular the Russian crisis, economic performance has improved. Macroeconomic stability has been achieved, reforms have accelerated while the Latvian authorities' commitment to the economic requirements of EU accession has been sustained.

²⁰ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

Hence, it is concluded that Latvia is a functioning market economy. The continuation of its current reform path should enable Latvia to cope with competitive pressure and market forces within the Union.

Improvements can be made to the functioning of the labour markets, in particular by active labour market measures in favour of disadvantaged groups, reinforcing public and private infrastructure necessary for the mobility of the workforce and further reforms to the educational system. Fiscal policy has to maintain a prudent approach, also in view of the high current account deficit. In addition, improving the general business environment and strengthening the administrative and judicial capacity would support a more broad-based private sector development.

Since the Opinion, Latvia has made steady progress in aligning its legislation with the *acquis*, in particular during the last 2 years. As a consequence the majority of the primary legislation has been put in place. At the same time, considerable efforts have been made to strengthen its administrative capacity, albeit not to the same extent as legislative alignment.

Over the past year, Latvia has further advanced in completing alignment and creating or restructuring related specialised bodies in the vast majority of areas. It has as well intensified training in most areas with a view to complying with the requirements of the *acquis*.

Overall, Latvia has achieved a high degree of alignment with the *acquis* in many areas, and is well advanced towards reaching adequate administrative capacity to implement the *acquis* in most fields. Further efforts remain to be made, in particular regarding its administrative capacity in most fields, as well as completion of legislation in a number of sectors. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

The preparation for participation in the internal market is well advanced and Latvia has achieved a good level of alignment in this area. As regards *free movement of goods*, the legal and institutional framework is generally in place. There has been sustained development of the standardisation system, which needs however to be reinforced. The reform of the market surveillance system and its infrastructure, including on food safety and in the field of public procurement, requires further strengthening. The process of bringing Latvia's legislation and structures in relation to the *free movement of persons* into line with the *acquis* has developed satisfactorily, although further efforts are required, especially on mutual recognition of professional qualifications as well as on strengthening institutional capacity. In the area of *freedom to provide services*, legislative alignment has advanced, notably regarding financial services and banking, but further work remains necessary regarding insurance and securities. In the area of *capital movements*, legislative alignment is well advanced, but the process needs to be completed as regards capital movements and payments. The administrative capacity has been put in place in this field, though further reinforcement remains necessary. On *company law*, an important development was the recent entry into force of the Commercial Code, which now needs to be implemented. While Latvia's legislation is well advanced in the field of intellectual and industrial property rights, effective action to fight against piracy and counterfeiting remains a challenge. In the area of *competition*, Latvia's legislative alignment, administrative capacity and enforcement record is reasonably advanced, but

efforts should continue to develop a track record on effective implementation of competition legislation.

As regards *customs*, legislation is largely aligned, but organisational restructuring and implementation needs to continue, as it does for *taxation*, where legislation needs to be completed on direct and indirect taxation. Latvia should step up its ongoing legislative work, and urgently speed up its preparations for electronic interconnectivity. For both areas, Latvia has committed itself to introducing adequate information technology systems so as to allow the exchange of electronic data with the Community and its member states. Significant further work is required as a priority for these systems to be operational by the date of accession.

Latvia has made further progress in the field of *agriculture* as well as more recently through upgrading of administrative structures with a view to the implementation of the Common Agricultural Policy. The establishment of the Food and Veterinary Service as the joint body responsible for controls of the entire food chain and the accreditation of the SAPARD agency constitute a significant achievement. However, important challenges lie ahead to complete alignment, and to reinforce the institutional capacity to implement the Common Agricultural Policy and its implementing measures, including the paying agency, the Integrated Administration and Control System (IACS) and the Common Market Organisations (CMO). Particular efforts remain necessary in the field of veterinary and food safety controls as well as on upgrading of food establishments to Community Standards. As regards *fisheries*, Latvia's legislation has been aligned to a reasonable extent, although there are gaps, notably as regards structural actions and market policy. The administrative structures have been partially established. Latvia's efforts now need to focus on further reinforcing administrative capacity and ensuring sufficient funding.

While Latvia's legislation is to a great extent in line with the *acquis* in the field of *transport*, the relevant framework laws (with the exception of maritime transport) are in place and the administrative capacity is being strengthened. Further efforts are necessary to complete the alignment process notably in the rail and maritime sectors as well as regarding administrative capacity in road, rail and air transport. The recent increase in capacity regarding maritime safety and Flag State performance needs to be further enhanced.

A significant step forward was the adoption of the new Labour Code in the field of *social policy and employment*. Legislative alignment in this field is well advanced, but needs to be completed. Effective implementation and enforcement regarding labour law, health and safety and public health remains important. In the field of *energy*, a reasonable level of alignment of legislative and institutional capacity has been achieved, but this process needs to be completed, in particular regarding the internal energy market (electricity and gas), oil stocks, increased energy efficiency and reinforcement of the administrative capacity of the various bodies. Latvia has achieved considerable progress in aligning with the *environmental acquis*. This process needs to be completed and the administrative capacity needs further strengthening, especially regarding inspections, co-operation and coordination at all levels. Investments should be enhanced.

With the adoption of the Law on Telecommunication and the establishment of the Public Utility Commission as regulator, the legislation is largely aligned and the institutions are in place. However, particular efforts are necessary with a view to a further liberalisation

of the *telecommunications* market, the strengthening of the independence and effectiveness of the regulator and legislative alignment in the field of postal services. Particular progress was made recently in terms of institutional strengthening in the field of culture and audio-visual policy, where Latvia's legislation is largely in line with the *acquis*.

In the field of *justice and home affairs*, significant progress has been made in terms of legal alignment as well as continued strengthening its institutional capacity. Latvia's efforts need now to focus on completion of legislative alignment, especially on migration, money laundering, and protection of the financial interests of the European Communities and judicial co-operation and implementation of the high quality Schengen Action Plan. Further reinforcing of the law enforcement bodies is needed, with particular attention to be paid to the fight against drugs and trafficking in general, smuggling, fraud, corruption and organised crime, including through improved cooperation between the various bodies involved. Strengthening of integrated border controls and completion or upgrading of structures also remains an important priority.

As for *regional policy and the co-ordination of structural instruments*, progress was made recently in preparing for the implementation of structural policies and designation of the main institutions involved. However, efforts will need to focus on building up adequate and efficient administrative capacity for the management of the Structural Funds and Cohesion Fund at all levels. Moreover, preparation of an up-to-standard draft Single Programming Document should be speeded up and inter-ministerial co-ordination and partnership needs to be ensured. Generally, all systems and procedures for effective monitoring, financial management and control should be reinforced and the legal framework has to be completed. There is a particular need for progress as regards the technical preparation of projects eligible for Community funding. Latvia has started to take measures to address the weaknesses identified, including through the allocation of human resources. Ongoing efforts need to be continued and substantially stepped up. The establishment of the Public Internal *Financial Control* system is relatively advanced, but needs to be completed, including legislative alignment.

Preparing its administrative capacity for membership remains one of the greatest challenges Latvia faces. With a view to the responsibilities Latvia will have to assume in managing and enforcing the *acquis* upon accession, a substantial portion of the necessary institutions have been restructured or created. While this process is well advanced, further substantial efforts are required to ensure that these institutions become fully operational. This is particularly important in areas such as internal market, agriculture, fisheries, transport, regional policy, environment, justice and home affairs and with regard to the implementation of information technology systems for taxation and customs. Finally, continued efforts are necessary to enhance Latvia's capacity to ensure sound, efficient and controllable management of EC funds.

In the accession negotiations, 27 chapters have been provisionally closed. Latvia is generally meeting the commitments it has made in the negotiations.

Bearing in mind the progress achieved since the Opinion, and in particular over the recent past, the level of alignment and administrative capacity that Latvia has achieved at this point in time, and its track record in implementing the commitments it has made in negotiations, the Commission considers that Latvia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to

accession, Latvia needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

D. Accession Partnership and Action Plan for strengthening administrative and judicial capacity: Global assessment

Latvia's progress and overall state of preparation in respect of the Copenhagen criteria has been examined and conclusions drawn above. The present section assesses the extent to which the priorities of the Accession Partnership have been met and the measures foreseen under the Action Plan implemented according to schedule. It should be noted that both the Accession Partnership and the Action Plan have a time perspective of two years covering 2002 and 2003, providing for another 15 months for priorities to be met. Furthermore, much has already been achieved based on previous Accession Partnerships. The present one focuses on remaining specific and well-circumscribed topics identified as requiring more work to prepare Latvia for membership. Therefore the analysis below only focuses on these specific topics and does not give an overall picture of the state of preparation of Latvia in each domain.

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

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

The Accession Partnerships are revised on a regular basis, to take account of progress made, and to allow new priorities to be set. The Council adopted a revised Accession Partnership for Latvia in January 2002, based on a proposal from the Commission.

The revised Accession Partnership has served as the point of departure for the Commission and Latvia to develop jointly an Action Plan to strengthen Latvia's administrative and judicial capacity.

The purpose of the Action Plan is to identify jointly the next steps required for Latvia to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing Latvia with targeted assistance in areas that are essential for the functioning of an enlarged Union.

Developing adequate administrative and judicial capacity for EU membership is a demanding and wide-ranging task, which requires detailed preparations in each and every domain covered by the Union's policies and legislation. In preparing individual Action Plans, the Commission has taken a comprehensive approach. All priorities from the revised Accession Partnerships which relate to the development of administrative and judicial capacity have been included in the Action Plans. Each of these priorities is treated separately in the Action Plans, and specific measures have been designed to address each of them.

In the following, progress in addressing each of these priorities is reported. For ease of reference and to avoid repetitions, wording from the *Accession Partnerships* is rendered in italics. As regards the measures foreseen by the Action Plan, implementation is checked against timetables and reported.

Political criteria

Regarding *public administration* reform, good progress was made in putting the legal framework (including the Framework Law on Public Administration, the Law on Agencies) in place in order to *develop a professional and stable civil service*. Preparations to establish a *sound remuneration system*, including evaluation of grades, are behind the schedule laid down by the Action Plan and need to be speeded up. Generally, efforts to ensure *minimum staffing levels, adequate financial resources* as well as *training of the administration need to continue in order to strengthen the capacity to implement the acquis*.

Some progress has been made in addressing the deficiencies of the *judicial system*, however the legal framework still needs to be completed, including the adoption of the new *Law on Criminal Procedure*. Progress was made in adopting the *Law on Public Administration* regarding the judiciary, but several pieces of legislation still need to be adopted (the Law on Judicial Powers, the Law on Sworn Court Bailiffs, the Civil Procedure Law as well as the *policy document* on court administration). While some issues were addressed through interim legislation, no notable progress was achieved regarding *alleviation of courts, workload, elimination of backlog of pending court cases and ensuring the enforcement of court decisions* in practice. While preparations to improve *remunerations of judges* have started, the process needs to be completed without delay, and sufficient funding needs to be ensured. *Training of judges* continued, but should be intensified. Some progress was made to *improve courts' infrastructure and computerisation*. Little was done to promote *access to justice*. Good progress was however made in the field of *fight against corruption* in continuing the *implementation of the anti-corruption strategy*, the adoption of a legal framework to strengthen the administrative capacity in view of the establishment of the Anti-Corruption Bureau in line with the requirements of the Action Plan. However, the appointment of its head should not further delay the start of its operation and thus the implementation of the Action Plan. Moreover, adequate means to *ensure effective implementation of the existing anti-corruption legislation* are also required. *International co-operation* has been improved.

Regarding *human rights and protection of minorities*, some initial progress was achieved in terms of legislative changes aiming at the reduction of *pre-trial detention for juveniles*, in line with the requirements of the Action Plan, but the issue still continues to pose a very serious problem. Continued attention is to be paid ensuring that the responsible authorities only apply and enforce the *Language Law and its implementation regulation in line with the principles of justified public interest and proportionality, international standards and the Europe Agreement*. Progress was made on promoting *integration of non-citizens into Latvian society*, notably through increased support to facilitate the integration process, through *language training and information campaigns*, including the establishment of the Society Integration Foundation as required by the Action Plan, but process of naturalisation remains slow. The abolition of linguistic requirements in the election law was a positive development. While generally progress was made in this field, the whole process needs to be accelerated significantly and sufficient funding to encourage further integration and adequate *language training* are to be provided. Therefore, the Accession Partnership priorities related to the political criteria have been partially met. Implementation of the measures under the Action Plan is slightly delayed.

Economic criteria

Latvia has made progress in the *privatisation of the remaining large enterprises* in the shipping and energy sector (Latvian Gas, Latvian shipping company LASCO), leaving only a few large enterprises to be privatised. This process will be more difficult. As required by the Action Plan, some progress on *finalising the land and property register* was made through completion of land properties in the Cadastral Register, but legal registration in the Land Book needs to be enhanced. The Computerised National Land Book should contribute to improving the functioning of *the land market*. Further progress is needed to *promote competitiveness, notably through measures aimed at stimulating domestic and inward investment in growth-generating activities*, as the National Innovation Programme and a related Action Plan are still pending. The entry into force of the Commercial Code and the newly established utility regulator is considered as a step to *improve business environment*, but the National Programme for SME development is still to be adopted. While the legislative framework has been largely put in place, particular attention must be paid to further *remove the remaining regulatory and administrative constraints*. Overall, the Accession Partnership priorities in the area of the economic criteria have been largely met.

Ability to assume the obligations of membership

Chapter 1: Free movement of goods

Alignment of public procurement legislation continued and administrative capacity in this field has been strengthened in terms of increase in staff and training as required by the Action Plan. While *implementation* is generally on track, the adoption of the policy document concerning the development of the public procurement system has been delayed. The *transposition of the New Approach Directives as concerns food legislation* is well advanced. Progress was made regarding the strengthening of the administrative capacity of the Food and Veterinary Service and legislative and institutional preparations (in the field of *food*) are on track, including further training of food safety inspectors as required by the Action Plan. Moreover, *the renewal of existing marketing authorisations for pharmaceuticals* is well advanced and strengthening of administrative capacity of the State Agency of Medicines and the State Pharmaceutical Inspection is proceeding according to schedule. The *screening of Latvian legislation in the non-harmonised area* has been completed. Supplementary administrative resources have been allocated to strengthen the administrative capacity of the State Heritage Inspectorate. In accordance with the requirements of the Action Plan, the *national accreditation system* has been reinforced and the *national metrology system* has been upgraded through intensified training and upgrading of equipment. The *reform of the market surveillance system* is proceeding as scheduled; the Consumer Rights Protection Centre set up several regional offices as a result of an increased budget and strengthened public awareness as foreseen in the Action Plan. No progress was made regarding *bodies for notification procedures*. *Adoption of EN standards* is on track. Overall, the Accession Partnership priorities in the area of free movement of goods have been met to a considerable extent. The time schedule set in the Action Plan is being largely respected.

Chapter 2: Free movement of persons

The *alignment of mutual recognition of professional qualifications and diplomas* is proceeding as scheduled. In accordance with the requirements of the Action Plan, the

administrative structures of the Academic Information Centre have been strengthened through an increase of staff, but further efforts are necessary; implementation of *training programmes* is on track. With regard to *professional qualifications obtained before harmonisation*, measures need to be introduced. *The administrative structure for the co-ordination of social security* has been further developed; an inter-institutional working group to supervise preparations in this field has been established as outlined in the Action Plan. Overall, the Accession Partnership priorities in the area of free movement of persons have been met to a large extent. The time schedule set in the Action Plan is being largely respected.

Chapter 3: Freedom to provide services

The *reinforcement of the supervision of financial services* has continued. Measures foreseen in the Action Plan in this field such as exchange of information with the financial and capital market supervisory authorities and training, are on track. In order to *complete alignment of the data protection legislation* further amendments need to be adopted, which also need to *ensure independence of the supervisory body*. As required in the Action Plan, the State Data Inspectorate was strengthened in terms of budgeting and staffing. Overall, the Accession Partnership priorities in the area of freedom to provide services have been partially met. The time schedule set in the Action Plan is being largely respected.

Chapter 4: Free movement of capital

In order to further *comply with the recommendations of the Financial Action Task Force*, the administrative capacity of the Financial Intelligence Unit has continued to be strengthened, in line with the requirement of the Action Plan. Regarding the second *Directive against money laundering*, legislative alignment needs to be completed. Overall, the Accession Partnership priority in the area of free movement of capital has been met to a considerable extent. The time schedule set in the Action Plan is being largely respected.

Chapter 5: Company law

As required by the Action Plan, the urgent priority of *enforcing intellectual and industrial property rights* is being acted upon through the establishment of a specialised division in the State Police, increased of staff numbers and training, but *co-operation between customs and the police* needs to be further improved. Despite the progress made, *piracy and counterfeiting* still remain a matter of great concern. *Intensive training for enforcement bodies including judges and prosecutors* has started, but needs to continue. Regarding the urgent priority to *implement the Commercial Code*, the relevant law has entered into force, but effective implementation has yet to continue. Overall, the Accession Partnership priorities in the area of company law have been partially met. The implementation of the measures under the Action Plan is largely on track.

Chapter 6: Competition

Latvia has continued to make progress in the field of *competition and state aid rules*. The *Competition Council and the Bureau* nevertheless require further strengthening in terms of competence and enforcement record as required by the Action Plan. The *State Aid Surveillance Commission* and its reinforced *secretariat* have a proven track record. Further *increased awareness raising* is needed not least in relation to the *market*

participants and aid grantors. Training of the judiciary, including judges and members of the Competition Council, on competition-related matters is being carried out, as required by the Action Plan, but must be intensified. Overall, the Accession Partnership priorities in the area of competition have been partially met. The implementation of the measures under the Action Plan is largely on track.

Chapter 7: Agriculture

As required by the Action Plan, some progress was made in *upgrading* the general *structure* including the establishment of a legal framework and *administrative structures* through the implementation of Latvia's action plan to implement the Common Market Organisations. There was some progress in *completing preparations for enforcement and practical application of the management mechanisms of the Common Agricultural Policy*, in particular as regards market intervention, sugar quotas and animal products. As foreseen in the Action Plan, some further progress was made regarding preparation for the *Integrated Administration and Control System*, mainly through increased staff and intensified co-operation with the Commission, which needs however to be speeded up; preparatory steps were taken to establish the *Paying Agency*. A significant development was the accreditation of the SAPARD agency. Progress was made regarding the *implementation and enforcement of veterinary and phytosanitary and food safety legislation*, as the joint body became operational, in line with the timetable of the Action Plan. Generally, the *administrative structures needed for the design, implementation, monitoring, control and evaluation of EC-funded rural development programmes* were strengthened, but the Rural Development Plan still needs to be drawn up. *Veterinary and phytosanitary inspection arrangements* were upgraded in terms of establishment of data bases, computerisation and training, but special attention needs to be paid to respecting timetables regarding the modernisation of border inspection posts as foreseen in the Action Plan. Regarding *animal diseases*, measures are being implemented, including monitoring and testing of BSE, as required by the Action Plan. Progress was made in establishing *restructuring plans for the agri-food sector*, but *modernisation of processing plants*, is slow, and no progress was achieved in the *meat* sector. Progress was made in setting up the control structure which should ensure respect of *EC food safety standards*, but implementation and enforcement are still to be introduced. Therefore, the Accession Partnership priorities in the area of agriculture have been partially met. Implementation of the measures under the Action Plan is largely on track.

Chapter 8: Fisheries

Further steps have been taken to *establish the administrative structures and equipment to ensure the implementation of the Common Fisheries Policy*, but particular efforts are still necessary. As regards *resource management, inspection and control*, progress has been achieved, which needs to continue. *Market policies* still have to be adopted (on marketing of fisheries and aquaculture products) and further important efforts are needed concerning *structural actions*, where activities have only started. Good progress was made regarding the *fishing vessel register* and a fleet development programme exists as required by the Action Plan. Therefore, the Accession Partnership priorities in the area of fisheries have been partially met. The implementation of the measures under the Action Plan is largely on track.

Chapter 9: Transport

Legislative alignment has continued in road transport, but no new legislation was adopted in relation to railway and maritime transport. On air transport, the computerised reservation system requirements were transposed. Some measures have been taken to start *strengthening administrative capacity* in road transport through the adoption of a political document on control of road transport, which aims at further restructuring, provision of additional resources, training and upgrading of the administration in this field, as addressed by the Action Plan. Regarding railway transport, a passenger carriage operator was established in line with the Action Plan, but further strengthening of railway inspection is necessary. The legal base for the establishment of an investigation authority in the area of air transport needs still to be put in place. On maritime transport, framework laws need to be adopted as well as implementing legislation which is lagging behind. As required by the Action Plan, measures are being developed to address the urgent priority concerning *strengthening of administrative capacity in the field of maritime* safety in terms of increase of resources, further restructuring of the Latvian Maritime Administration and training, and their timely implementation remains important in order to increase efficiency. Regarding *Flag State performance*, progress was made as the Port State controls and detention rates of Latvian ships were improved, but the safety record should be raised significantly to reach EU level. Therefore, the Accession Partnership priorities in the area of transport have been partially met. Implementation of the measures under the Action Plan is largely on track.

Chapter 10: Taxation

Progress was made regarding *alignment of VAT legislation*, but not for excise duties and direct taxation. Review of legislation to ensure *compliance with the Code of Conduct for Business Taxation* is in process. On *administrative capacity and control procedures*, some progress was made in line with the Action Plan, particularly in the field of customer service and regarding collection of revenues and audits. In line with the requirements of the Action Plan, implementation of the State Revenue Service Modernisation Project (1998-2002) has continued in terms of the organisational structure, the establishment of service halls and the development of appeal structures. The *administrative capacity* needs however to be further *strengthened*, including completion of the three level organisational structure and appeals procedures. No progress can be reported with regard to the *holding and movement directive*. The urgent priority to install an *IT system to allow for exchange of data with Member States as required by the Action Plan* needs to be addressed. Thus, the Accession Partnership priorities in the field of taxation have been only partially met. Implementation of the Action Plan is slightly delayed.

Chapter 12: Statistics

Work on *improving quality and coverage of statistics* has continued, but further efforts in this field are necessary regarding use of resources and sectoral statistics, including on debt and deficits, forestry and environment. Good progress was made in terms of *resources made available to further strengthen statistical capacities, including at regional level*; as required by the Action Plan, the implementation of the strategy on upgrading of the statistical infrastructure has continued. Overall, the Accession Partnership priorities in the area of statistics have been met to a considerable extent. Implementation of the measures under the Action Plan is on track.

Chapter 13: Social policy and employment

Progress was made on *alignment of the social acquis* as the new Labour Code entered into force, but alignment is yet to be completed, notably regarding the *new acquis*. In line with the requirements of the Action Plan, training to ensure its enforcement was carried out. On *equal treatment for women and men*, the Policy document of Gender Equality was approved and the Gender Equality Council established; the *enforcement of the acquis* in this field has still to be ensured. Regarding *health and safety at work*, the entry into force of the Law on Labour Protection as well as secondary legislation constitutes good progress, but transposition is not complete. Developments regarding *strengthening of administrative and enforcement structures*, required under the Action Plan, are on track; the State Labour Inspectorate Law was adopted and training activities to strengthen the capacity of the State Labour Inspectorate were pursued; further reinforcement of the *labour inspectorates* is however necessary to ensure effective implementation of the *acquis*. The approval of the Law on the *Protection of Employees in the Event of Insolvency of their Employer* was an important step, but the implementation of the Law and the creation of the guarantee fund are pending. No new *legislation against discrimination* was adopted; no *timetable for its implementation* was developed. Concerning *public health*, in the domain of *communicable disease surveillance*, control legislation was adopted to align with the *acquis*; however, new legislation with rules on communicable diseases notification, surveillance and reporting forms is needed. A Public Health Agency was also established and various training activities were undertaken by the Agency, but the Action Plan to ensure the implementation of the Public Health Strategy is still pending; better operationality of the system needs also to be ensured. On *social dialogue*, no particular actions were reported and the law on Labour Disputes Settlement is still pending. However, a series of measures to strengthen the social dialogue in general and the bi-partite social dialogue in particular are envisaged. On *social inclusion*, work is underway, as required by the Action Plan, concerning a joint co-operation exercise on social inclusion. In the context of the *national employment strategy*, progress was made in terms of training activities in the framework of the National Training Plan for the European Social Fund (ESF) as foreseen under the Action Plan. Therefore, the Accession Partnership priorities in the area of social policy and employment have been partially met. The time schedule set out in the Action Plan is being largely respected.

Chapter 14: Energy

Latvia made progress in order to *prepare for the internal energy market* in adopting policy documents on energy and for gas market liberalisation, including an Action Plan for its implementation. Further steps of Latvenergo's *restructuring* are pending. Progress was made in privatising Latvijas Gāze. The harmonisation with the *electricity and gas directives* has advanced, but needs to be completed. The Gas Market Liberalisation policy document includes provisions for the *elimination of price distortions and needs to be implemented*. The *regulator*, the Public Utilities Commission, has been *strengthened*, but continued efforts are necessary in terms of additional resources, further independence, training and the establishment of relevant system operators, as required in the Action Plan. On *oil stocks*, progress was made and legislation on the maintaining of security oil stocks was adopted, but secondary legislation is still needed to achieve alignment. As required by the Action Plan, the *administrative structure* in this area was clarified further. Latvia continued to address the requirements under the Action Plan concerning *energy efficiency* and to promote *the use of renewable energy*, but more remains to be done. The

institution responsible for energy efficiency control and supervision started its operation; its statute has been adopted, but its capacity needs strengthening, in line with the measures defined in the Action Plan, and additional efforts are required in this field. Latvia has accepted and adequately addressed all recommendations of the *Council Report on Nuclear Safety in the Context of Enlargement*; implementation of the Action Plan has continued through strengthening of the administrative capacity of the Radiation Safety Centre. Overall, the Accession Partnership priorities in the energy sector have been partially met. Implementation of the measures under the Action Plan is largely on track.

Chapter 19: Telecommunications and information technologies

As required by the Action Plan, progress was made concerning *alignment with the telecommunications acquis* through the adoption of the Law on Telecommunications in November 2001. Preparation for *enforcement* is on track. Little progress was achieved however as regards further *liberalisation of the telecommunication market*. The establishment of the *regulator* in October 2001 was an important step to ensure further *independence*. In line with the requirements of the Action Plan, the number of staff has increased, but efforts have to continue in this field. Only little progress was made regarding *alignment and to ensure implementation of postal legislation*. Thus, the Accession Partnership priorities in the area of telecommunications and information technologies have been partially met. The time schedule set in the Action Plan is being largely respected.

Chapter 20: Culture and audio-visual policy

Some progress was made in further *strengthening the capabilities of the independent television/radio regulatory authority* in terms of the establishment and reinforcement of the Information Centre of the National Radio and TV Council, as required by the Action Plan, but further efforts to complete alignment and to continue reinforcement of sanctioning and monitoring powers of the National Broadcasting Council are necessary. Therefore, the Accession Partnership priority in the area of culture and audio-visual policy has been partly met and the time schedule set in the Action Plan is being largely respected.

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

As foreseen in the Action Plan, the general *framework* for regional policy was adopted and the *bodies in charge of implementation of Structural Funds and Cohesion Fund, in particular the managing and paying authorities*, have been largely identified as well as their main tasks and responsibilities. Legislation on the allocation of functions and the organisational relationship concerning monitoring and evaluation and financial management and control procedures are still under development, so only limited progress can be reported. The *preparation of the Single Programming Document* has started, as required by the Action Plan, but further significant improvements are required to reach the necessary standard; this requires to start its ex-ante evaluation without delay. The *capacity* of the designated *managing and paying authorities* was *strengthened* through staff recruitment and training actions, but further reinforcement is required. Some progress can be reported regarding *inter-ministerial co-ordination and appropriate partnership* as the Structural Funds inter-ministerial working group (future steering group) has been put in place, but the National Regional Development Council has not been established yet. Preliminary work has started, but no *evaluation and monitoring*

systems have been set up yet. The *development of the technical project preparations for Structural and Cohesion Fund projects* is ongoing, as scheduled in the Action Plan, but *project pipeline* development preparations are at a very early stage. Overall, the Accession Partnership priorities in the area of regional policy have been partially met. The time schedule set in the Action Plan is being largely respected.

Chapter 22: Environment

Progress in *completing transposition of the acquis* was good, including *access to environmental information, waste management and chemicals*. *Implementation of the acquis has continued on waste management*, in particular as regards *packaging, packaging waste and hazardous waste, including PCBs/PCTs, waste oils, accumulators and batteries*, and needs continued special attention. In line with the Action Plan, budget allocations for the environmental sector have been increased to strengthen the environment protection control system at all levels, including for inspections, pollution monitoring and management systems. Regarding *water quality*, implementation has started on *urban waste water and microbiological parameters of drinking water*. It is at an early stage, as concerns *pollution-reduction programmes* and on *vulnerable zones*. In the *chemicals* sector, the implementation system put in place needs further co-ordination and co-operation. Latvia has *strengthened its administrative capacity*, as requested by the Action Plan, notably through training provided by the State Environmental Inspectorate for inspectors of the Regional Environmental Boards, but further efforts remain to be invested regarding especially the establishment of an effective structure at *regional and local level*. On *nature protection*, the Nature Protection Board became operational, but needs further strengthening. Although further steps have been taken in *integrating environmental protection requirements into all sectoral policies*, continued attention is needed both at the national and the local level. Overall, the Accession Partnership priorities in the area of environment have been partially met. Implementation of the measures in the Action Plan is on track.

Chapter 23: Consumers and health protection

Progress in alignment with the *acquis* has been achieved especially concerning *market surveillance*. However, further efforts are needed to align with the *acquis* concerning safety and non-safety measures. As regards the *effectiveness of administrative structures*, progress was made as required by the Action Plan in terms of training for employees of the Consumer Rights and Protection Centre, the setting up of several regional offices as well as public awareness-raising. It is now necessary to intensify post-market control to ensure consumer safety both in the country and in the future enlarged internal market. More efforts should be devoted to enforcement issues and continued strengthening of the administrative capacity of the testing laboratories as well as the Consumer Rights and Protection Centre and its regional offices. Therefore, the Accession Partnership priorities in the area of consumers and health protection have been partially met. Implementation of the measures under the Action Plan is largely on track.

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

Implementation of the Schengen Action Plan has continued in line with the requirements of the Action Plan. As regards the *law enforcement bodies, including the judiciary*, legislation has progressed and further *strengthening as well as co-operation* was achieved between the institutions responsible, notably the police and the authorities responsible for

combating money laundering; progress was less marked on the judiciary and with respect to effective results. Work on *co-operation agreement with Europol* is on track. *Implementation of the National Drug Strategy and preparation for participation in EMCDDA* (European Monitoring Centre for Drugs and Drugs Addiction) are within schedule. *Alignment to the acquis on visa and asylum* but not on *migration* has continued and the *institutions have been further strengthened* as required by the Action Plan. *Preparations* with a view to Latvia's *participation in the Schengen Information System* have commenced through the elaboration of a policy document and establishment of a SIRENE Bureau as well as of the National Schengen Information System, as foreseen under the Action Plan. *Strengthening of the external borders controls*, as foreseen under the Action Plan, was addressed through continued implementation of the policy document of the State Border Guard Development (2001-2005), increased investments in order to develop the infrastructure at the eastern border, including completion of further border posts, installation of information systems (REIS, UVIS) as well as training; the *establishment of an integrated sea surveillance system* has advanced through the establishment and training of maritime units within the State Border Guards. No important progress was made regarding *judicial co-operation in civil matters*. No progress was reported regarding steps to align Latvia's legislation to the *Convention on the Protection of the Communities' Financial Interests*. Overall, the Accession Partnership priorities in the area of justice and home affairs have been partially met. Implementation of the measures under the Action Plan is largely on track.

Chapter 25: Customs union

Latvia has made progress in *completing the alignment of customs legislation* with the *acquis* and *ensuring implementation*, especially as regards completion of custom points, training, use of risk analysis and co-operation with economic operators and institutions (simplified customs procedure). Work to *reinforce administrative and operational capacity* has continued mainly through institutional restructuring, the creation of specialised services, strengthening of investigations, notably on smuggling as well as training and through the implementation of the State Revenue Service Customs Business Strategy (2001-2005) in line with the Action Plan. Efforts regarding reduction of the number of customs warehouses, risk analysis, the fight against smuggling and co-operation with other enforcement bodies need to be further enhanced. Customs control points need to be completed. Progress was made in adopting the *customs ethics code*, which now needs to be implemented. Continued attention is to be paid to fight against corruption and fraud prevention. The urgent priority to *accelerate the implementation of the IT strategy and to develop the interconnectivity IT systems* needs to be addressed. Therefore, the Accession Partnership priorities in the area of customs union have been partially met. Implementation of the measures under the Action Plan is largely on track, except for the urgent priority on IT strategy development.

Chapter 26: External relations

Latvia has continued to inform the Union of negotiations aimed at the conclusion of new trade *agreements* with third countries. However, Latvia needs to make further efforts to *take the necessary measures to renegotiate* or to renounce all *international agreements and treaties*, including *bilateral investment treaties*, concluded with third countries that are *incompatible* with its future obligations as an EU Member State. Thus, the Accession Partnership priority in the area of external relations has been partially met.

Chapter 28: Financial control

In accordance with the Action Plan some progress was made regarding the development of the *Public Internal Financial Control* (PIFC) system, mainly in terms of extending the scope of the internal audit system. However the adoption of the new Internal Audit Law has been delayed. Further efforts are needed to *strengthen and implement the concepts of managerial accountability and functional independence of the internal audit capabilities*. The Internal Audit Harmonisation and Methodology unit (IAHMU) in the Ministry of Finance has been designated as the contact point in matters relating to PIFC. Good progress was made in respect of alignment in the area of *external audit*, where a new law was adopted aiming at ensuring *the independence of the State Audit Office* (SAO) as well as its *capacity* as required by the Action Plan. Some progress has been made regarding the *designation of an anti-fraud co-ordinating service* and the *strengthening of the fight against fraud*. Limited progress was made *to ensure control over EC pre-accession funding*. No particular developments have taken place regarding the *concept of audit trails for EC funds*. Overall, the Accession Partnership priorities in the area of financial control have only been partially met. Implementation of the measures under the Action Plan is largely on track.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
15 September 2002***

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

X = Convention ratified

O = Convention **NOT** ratified

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

Statistical data

	1997	1998	1999	2000	2001
Basic data	in 1000				
Population (average) a)	2,433	2,410	2,390	2,373	2,355
	in 1000				
Total area	64,589	64,589	64,589	64,589	64,589
National accounts	1000 Mio Lats				
Gross domestic product at current prices	3.3	3.6	3.9	4.3	4.8
	1000 Mio ECU/euro				
Gross domestic product at current prices	5.0	5.4	6.2	7.8	8.5
	ECU/euro				
Gross domestic product per capita b) at current prices	2,000	2,200	2,600	3,300	3,600
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	8.4	4.8	2.8	6.8	7.7
Employment growth	1.9	0.6	-0.5	0.0	-0.1
Labour productivity growth	6.4	4.1	3.4	6.8	7.8
	in Purchasing Power Standards				
Gross domestic product per capita b) at current prices	5,200	5,600	6,100	7,000	7,700
Structure of production	% of Gross Value Added c)				
- Agriculture	5.6	4.4	4.3	4.9	4.7
- Industry (excluding construction)	27.4	23.4	19.9	18.6	18.7
- Construction	4.8	6.9	7.1	6.7	6.2
- Services	62.1	65.4	68.6	69.8	70.4
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	85.9	85.9	83.4	81.7	81.5
- household and NPISH	66.7	64.5	62.9	61.9	62.3
- general government	19.2	21.4	20.6	19.7	19.2
- Gross fixed capital formation	18.8	27.3	25.2	26.5	27.3
- Stock variation d)	3.9	0.4	1.7	0.5	2.6
- Exports of goods and services	51.1	51.3	43.9	45.6	44.9
- Imports of goods and services	59.6	64.8	54.2	54.3	56.2
Inflation rate	% change over the previous year				
Consumer price index e)	8.1	4.3	2.1	2.6	2.5
Balance of payments	in Mio ECU/euro				
- Current account	-305	-576	-599	-538	-825g
- Trade balance	-748	-1,007	-956	-1,152	:
<i>Exports of goods</i>	1,621	1,798	1,772	2,232	:
<i>Imports of goods</i>	2,369	2,805	2,729	3,384	:
- Net services	327	271	314	479	:
- Net income	49	48	-44	28	:
- Net current transfers	68	111	87	106	:
<i>-of which: government transfers</i>	29	73	57	39	:
- FDI (net) inflows	460	318	324	442	198
Public finance	in % of Gross Domestic Product				
General government deficit/surplus	1.8	-0.7	-5.3	-2.7	-1.6p
General government debt	:	10.6	13.7	13.9	16.0p
Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy f)	10.5	36.2	47.6	45.7	:
	as % of exports				
Gross foreign debt of the whole economy f)	20.6	70.6	111.8	100.0	:

	1000 Mio ECU /euro				
Monetary aggregates					
- M1	0.8	0.9	1.0	1.3	1.5
- M2	0.9	1.0	1.2	1.5	1.9
- M3	1.3	1.4	1.7	2.2	2.8
Total credit	0.9	1.1	1.5	2.0	2.9
Average short-term interest rates	% per annum				
- Day-to-day money rate	3.7	4.4	4.7	3.0	5.2
- Lending rate	14.8	12.9	13.1	10.2	10.2
- Deposit rate	5.9	5.3	5.1	4.4	5.2
ECU/EUR exchange rates	(1ECU/euro=Lats)				
- Average of period	0.659	0.660	0.626	0.559	0.560
- End of period	0.651	0.665	0.588	0.576	0.556
	1993=100				
- Effective exchange rate index	180.0	203.8	287.7	316.3	316.6
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	703	687	907	987	1,381
-Reserve assets (excluding gold)	638	624	836	915	1,304

	Mio ECU/euro				
External trade					
Balance	-926	-1,230	-1,144	-1,435	-1,688
Exports	1,474	1,619	1,612	2,023	2,243
Imports	2,400	2,849	2,756	3,458	3,931
	previous year=100				
Terms of trade	:	101.9	101.8	92.5	100.9
	as % of total				
Exports with EU-15	48.9	56.6	62.5	64.6	61.2
Imports with EU-15	53.2	55.3	54.5	52.4	52.6

	per 1000 of population				
Demography					
Natural growth rate	-6.1	-6.6	-5.6	-5.1	-5.7
Net migration rate (including corrections)	-3.9	-2.4	-1.7	-2.3	-2.2
	per 1000 live-births				
Infant mortality rate	15.3	15.0	11.3	10.4	11.0
Life expectancy :	at birth				
Males:	64.2	64.1	64.9	64.9	65.2
Females:	75.9	75.5	76.2	76.0	76.6

	% of population				
Labour market (Labour Force Survey)					
Economic activity rate (15 - 64)	:	68.7	69.1	67.5	68.0
Employment rate (15-64), total	:	58.6	59.4	57.7	58.9
Employment rate (15-64), male	:	63.5	65.2	62.3	61.9
Employment rate (15-64), female	:	54.2	54.1	53.5	56.1
Average employment by NACE branches	% of population				
- Agriculture and forestry	20.6	18.7	17.2	14.4	15.1
- Industry (excluding construction)	21.4	21.5	19.7	20.8	18.6
- Construction	5.4	5.6	6.1	6.0	6.7
- Services	52.6	54.2	57.0	58.7	59.6
	% of labour force				
Unemployment rate, total	14.4	14.5	13.7	14.2	13.1
Unemployment rate, males	14.3	15.4	14.1	15.0	14.6
Unemployment rate, females	14.6	13.6	13.3	13.4	11.5
Unemployment rate of persons < 25 years	24.9	27.1	23.4	21.4	22.9
	as % of all unemployed				
Long-term unemployment share	55.8	56.3	53.9	57.1	59.1

Infrastructure	in km per 1000 km²				
Railway network	37.4	37.4	37.4	37.4	37.4
	km				
Length of motorways	0	0	0	0	0

Industry and agriculture	previous year=100				
Gross sales of industrial production volume indices	113.8	103.1	94.6	104.7	108.4p
Gross agricultural production volume indices (in prices 1993)	103.8	92.1	89.4	104.7	105.0p

Standard of living	per 1000 inhabitants				
Number of cars	178.0	201.0	221.0	235.0	250.0
Main telephone lines	306.0	309.0	307.0	311.0	308.0
Number of subscriptions to cellular mobile services	31.0	70.0	117.0	170.0	267.0
Number of Internet subscriptions	:	:	:	:	:

p=provisional figures

- a) Calculation of the CSB of Latvia based on the 2000 Population and Housing Census provisional results.
- b) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.
- c) Including FISIM.
- d) These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.
- e) Changes in Methodology: PROXY HICP since 1998 (see methodological notes).
- f) Series break after 1997.
- g) Source: Website of the National Bank

Methodological Notes

Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1997 (rates from 1998).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series for Latvia are presently available from 1998 only; the 1996-97 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified to until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

External trade

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

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

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

Imports and exports with EU-15. Data declared by the Republic of Latvia.

Demography

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

Labour force

The European Labour Force Survey is conducted in spring each year in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998. A detailed description of the sampling methods, the adjustment procedures, the definitions and the common Community coding currently used in the labour force survey is presented in the publications 'Labour Force Survey – Methods and definitions, 1998' and 'Labour Force Survey in central and east European countries – Methods and definitions, 2000'.

All definitions apply to persons aged 15 years and over, living in private households. The concepts and definitions used in the survey follow the guidelines of the International Labour Organisation. Persons carrying out obligatory military service are not included.

Persons in employment were those who during the reference week did any work for pay or profit for at least one hour, or were not working but had jobs from which they were temporarily absent. Family workers are included.

As from 2001 (Commission Regulation (EC) No 1897/2000 of 7 September 2000), *unemployed persons* comprise persons aged 15 to 74 who were:

(a) without work during the reference week, i.e. neither had a job nor were at work (for one hour or more) in paid employment or self-employment;

(b) currently available for work, i.e. were available for paid employment or self-employment before the end of the two weeks following the reference week;

(c) actively seeking work, i.e. had taken specific steps in the four weeks period ending with the reference week to seek paid employment or self-employment or who found a job to start later, i.e. within a period of at most three months.

Comparability with results prior to 2001: unemployment results used to refer to persons aged 15 and more. Persons who found a job to start later used to be considered as unemployed with the unique condition to have no job in the reference week; however, the new condition on time limit of at most three months is not yet applied.

Duration of unemployment is defined as:

(a) the duration of search for a job, or

(b) the length of the period since the last job was held (if this period is shorter than the duration of search for a job).

The active population is defined as the sum of persons in employment and unemployed persons.

Inactive persons are those who are not classified as persons in employment nor as unemployed persons.

Employment rates represent employed persons aged 15-64 as a percentage of the same age population.

Unemployment rates represent unemployed persons as a percentage of the active population aged 15 years and more.

Economic activity rates represent the active population aged 15-64 as a percentage of the population of the same age.

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 on the basis of the previous year. Indices are changed as results of methodology improvement.

Standard of living

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

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

Number of main telephone lines – number of telephone lines connecting the subscriber's terminal equipment to the public switched network and which has a dedicated port in the telephone exchange equipment.

Sources

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

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