

**Comprehensive monitoring report  
on  
Latvia's  
preparations for membership**

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## A. INTRODUCTION

The accession negotiations with Latvia were successfully concluded on 13 December 2002 and the Treaty of Accession was signed on 16 April 2003. In a referendum held on 20 September 2003, a majority of Latvians expressed their support for membership of the European Union. Following ratification of the Treaty of Accession, Latvia will join the EU on 1 May 2004.

In its Strategy Paper “Towards the enlarged Union”, which accompanied the 2002 Regular Reports, the Commission stated that:

*“Acceding countries need to implement the acquis by the date of accession, except in cases where transitional arrangements have been agreed. Commitments undertaken in the negotiations must be fully met before accession. The Regular Reports point to a number of areas where further improvements need to be made in the context of the political and economic criteria and in relationship to the adoption, implementation and enforcement of the acquis. These should be vigorously pursued. In order to analyse progress and to facilitate successful membership of the European Union, the Commission will regularly monitor this and report to Council. The Commission will produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European Parliament.”*

The Copenhagen European Council in December 2002 concluded that:

*“Monitoring up to accession of the commitments undertaken will give further guidance to the acceding states in their efforts to assume responsibilities of membership and will give the necessary assurance to current Member States.”*

and the Thessaloniki European Council in June 2003 stated that:

*“...the ten acceding States are encouraged to keep up their efforts so that they are fully prepared to assume the obligations of membership by accession. This also includes the necessary translation of the Community acquis. With a view to making a success of enlargement, the monitoring of these preparations has been intensified on the basis of reports submitted regularly by the Commission.”*

As the accession date of 1 May 2004 draws closer, this report presents a comprehensive state of play of the findings of the regular monitoring carried out by the Commission, building upon the findings of the 2002 Regular Report for Latvia. The report contains two main parts.

The first part deals with economic issues. It describes briefly economic developments in Latvia, and then goes on to assess the implementation of the necessary economic reforms in the areas highlighted in the conclusions of the 2002 Regular Report for Latvia as being in need of further improvements.

The second part gives an overview of where Latvia stands in implementing all commitments and requirements arising from the accession negotiations for each *acquis* chapter, both in terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement. In view of their importance for the implementation and enforcement of the *acquis*, the overall state of readiness of the public

administration and the judicial system and the development of effective anti-corruption measures are assessed in an introductory section to this part.

This report reflects the situation at the end of September 2003. It records decisions actually taken, legislation actually adopted, measures actually implemented and structures actually in place and functioning by that date.

For each chapter of the *acquis*, this report identifies the areas in which Latvia is expected to be, or is already, in a position to implement the *acquis* and the areas where further action is still needed. Where relevant, the report also points out issues where lagging or deficient preparations are a cause of serious concern. This assessment starts from the premise that Latvia must be fully prepared for membership from the date of accession. In cases where transitional arrangements have been agreed in the accession negotiations, their effect on Latvia's obligations is duly reflected in the assessment.

Numerous sources of information have been used to compile this report. Latvia was invited to provide information on its state of preparedness. The Report also draws on information provided by Latvia within the framework of the Association Agreement and the accession negotiations, as well as on peer reviews that have taken place to assess its administrative capacity in specific areas. Council deliberations and European Parliament reports and resolutions have been taken into account in drafting it.<sup>1</sup> Where relevant, the Commission has also drawn on assessments made by various international organisations such as the Council of Europe, the OSCE and the international financial institutions, and by non-governmental organisations.

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<sup>1</sup> For the European Parliament the rapporteur is Mrs Elisabeth Schroedter.

## **B. ECONOMIC ISSUES**

In its 2002 Regular Report, the Commission concluded that

*“Latvia is a functioning market economy and that 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.”*

The principal purpose of this part of the Comprehensive Monitoring Report is to assess the implementation of recommendations for improvements in the areas identified in last year’s Regular Report. The focus is on the change since last year and not on the overall degree of functioning of the market economy or degree of competitiveness. The assessment can be found in Section 2. Section 1 briefly describes recent economic developments in Latvia including the continuation of the reform path since last year’s Report.

### **1. Economic developments**

*Economic activity has remained firm despite a weak external environment. GDP growth remained strong at 6.1% in 2002 and accelerated further to 8.8% in the first quarter of 2003 year-on-year. Private consumption and gross fixed capital formation were particularly robust and became the driving factors for growth, while export growth was relatively high and outpaced import growth. Despite high private consumption growth, inflation decreased to 2% in 2002, as inflation in Latvia’s major trading partners was low and lower prices in mobile communication services contributed to attenuating domestic pressures. Inflation picked up to 2.5% in April 2003, driven by higher prices of consumer goods. High growth has contributed to lower unemployment, which decreased from 12.8% in December 2001 to 11.6% in December 2002<sup>2</sup>, and the employment rate was 60.4% in 2002, but upward pressures from enterprise and rural restructuring are expected to remain. The current account deficit decreased to 7.7% of GDP, but remains at a relatively high level. Because the savings-investment balance is likely to be under pressure from high private consumption growth and investment requirements, guaranteeing external sustainability in the medium term remains a point of concern. Financing the current account deficit in 2002 was not problematic, as net inflows of foreign direct investment showed strong growth and financed about 60% of the deficit. The decreasing path of fiscal consolidation was interrupted in 2002, when the general government deficit increased to 3%. The general government debt remains relatively low at 15.2% of GDP in 2002. Monetary conditions remained supportive to the exchange rate peg and contributed positively to macroeconomic stability. Interest rates have broadly*

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<sup>2</sup> Data according to Labour Force Survey for the last quarter of the year.

followed developments in interest rates of the economies represented in the basket which, together with high banking competition, led to rapid credit growth. Very strong credit growth and a large share of non-resident deposits in the banking sector stress the need to closely monitor developments in this area.

Main Economic Trends							
Latvia		1998	1999	2000	2001	2002	2003 latest
Real GDP growth rate	per cent	4.8	2.8	6.8	7.9	6.1	6.2 Q2
Inflation rate	per cent	4.3	2.1	2.6	2.5	2.0	2.3
- annual average							August <sup>a</sup>
- December-on-December	per cent	2.7	3	1.7	3.2	1.5	3.4 August
Unemployment rate	per cent	14.3	14.0	13.7	12.8	12.8	
- LFS definition							
General government budget balance	per cent of GDP	-0.7	-5.3	-2.7	-1.6	-3.0 p	
Current account balance	per cent of GDP	-10.7	-9.7	-6.9	-9.6	-7.7 p	
	million ECU/Euro	-576	-599	-538	-825	-697 <sup>b</sup>	-420 Jan.-July <sup>b</sup>
Gross foreign debt of the whole economy	Per cent of exports of goods and services	28.4	47.5	87.5	104.3	:	
- debt export ratio	million ECU/Euro	792	1 297	3 104	3 984	:	
Foreign direct investment in flow	Per cent of GDP	5.9	5.7	5.7	2.3	4.6 p	
- balance of payments data	million ECU/Euro	318	352	445	198	410 <sup>b</sup>	233 Jan.-July <sup>b</sup>

Sources: Eurostat. National sources. OECD external Debt Statistics

<sup>a</sup> Moving 12 months average rate of change.

<sup>b</sup> Source: Website of the National Bank.

P= provisional figures

*The economic reform path has been sustained.* The privatisation process continued, albeit with some controversies, with the sale of the shipping company (LASCO) and the remaining government stakes in Latvijas Gaze and Krajbanka. The government expects to complete the sale of remaining shares in Ventspils Nafta and Lattelekom, though several problems have caused delays. Restructuring plans are being put in place for public enterprises which are not expected to be privatised such as Latvenergo and the railway company. The tariff system for public utilities services is being overhauled to reflect more cost-recovery mechanisms and open the markets to higher competition, although competition is still low. The pension reform is being implemented as foreseen, setting the grounds for a more sustainable pension system. The land market reform is well advanced. Significant problems remain in the agricultural sector, which continues to be dominated by small farms where productivity remains very low. A number of active labour market initiatives have been put in place and are producing satisfactory results, but further efforts are necessary to decrease structural unemployment and regional disparities in terms of income and unemployment. Despite increased efforts, more focus is needed on developing entrepreneurship and innovation activities and decreasing corruption.

Main Indicators of Economic Structure in 2002		
Population (average)	Thousand	2,339
GDP per head <sup>a</sup>	PPS	
	Per cent of EU average	35
Share of agriculture <sup>b</sup> in:		
- gross value added	Per Cent	4.7
- employment	Per Cent	15.3
Gross fixed capital formation/GDP	Per Cent	26.2
Gross foreign debt of the whole economy/GDP <sup>c</sup>	Per Cent	46.4
Exports of goods & services/GDP	Per Cent	45.5
Stock of foreign direct investment <sup>d</sup>	Million Euro	2288
	Euro per head	978
Long term unemployment rate	Per Cent of labour force	5.8
<i>Source: Eurostat</i>		

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 2001.

d Data refer to 2000.

## 2. Implementation of recommendations for improvements

*Positive developments have taken place as regards active labour market policies, but several structural rigidities remain.* Improvements have been made since last year's Report in several areas identified in the EU-Latvia Joint Assessment of Employment Policy Priorities and the subsequent progress reports. Good progress has been achieved concerning the preparation of initiatives to increase working opportunities for the young unemployed and to improve the skills of the aged and disabled unemployed. Labour mobility remains low despite very large regional income and unemployment disparities. Reinforcing public and private infrastructure is necessary for the mobility of the workforce, but the lack of appropriate skills in remote areas also hinders mobility. Further efforts are needed in adapting the educational system to the current demand for skills. Improving skills in IT, marketing, management and languages should allow Latvia to develop more value added activities and to keep the present good trend of productivity growth. Despite high GDP growth rates in the last years, employment growth has been relatively low. More focus is needed on developing local entrepreneurship and innovation activities and recent initiatives in this area need to be strengthened. In addition, the scarcity of links between enterprises and universities is perceived by the business community as a major problem hindering economic dynamism and entrepreneurship.

*Fiscal policy turned into a more expansionary phase in 2002.* The general government deficit increased to 3% of GDP in 2002, up from 1.6% in 2001. The level was significantly above the initial targets set by the government in 2002. Higher expenditure reflected supplementary spending by main ministries approved at the end of the year, as well as a higher than expected deficit of local government and significant wage increases in the public sector. Revenues increased along the lines of high GDP growth, induced by high personal, corporate income and social taxes, although it was not sufficient to fully offset the increase in expenditure. In the period January-May 2003, revenues increased by an estimated 8.9% over the same period of last year, underpinned by strong GDP growth

and better tax administration, whereas expenditure increased by 4.6%. While revenues were higher than originally planned, expenditure developed very much according to budget plans, leading to a slight surplus of the general government balance in May. In view of these developments, the government decided to amend the budget in June 2003. The amendments entail additional expenditure, most of which will be spent on the teacher wage reform, subsidies of agricultural production, grants for investment of local governments and the financing of the healthcare sector. The original deficit target for this year, about 3% of GDP, is expected to be maintained. The robust domestic demand and the high current account deficit raise concerns about the suitability of the present fiscal policy. Recent tax cuts and higher expenditure related to wages, the health system and investment needs are likely to constrain fiscal consolidation in the medium term. More discipline could be exercised on the borrowing of local governments, and avoiding budget amendments that entail additional expenditure would allow the central government finances to reap the benefits of the current high growth rates. A less procyclical fiscal stance would be more supportive to macroeconomic and external sustainability.

*Overall, appropriate conditions to attract foreign investment have been established, but the **environment for the creation of new enterprises** remains somewhat problematic. Some progress has been made in improving **administrative and judicial capacity** as regards to the business community. Several initiatives have been taken to improve the situation. The Development Agency has set up an action plan to reduce barriers to creating new business, with greater focus on small local enterprises and particular attention to venture capital and the creation of a credit guarantee agency for SMEs. Following the positive experience with the Foreign Investors Council, which discusses with the government developments in the business environment and regulatory framework, the Ministry of Economic Affairs has recently set up an advisory council to discuss entrepreneurship issues. The council tries to bring together representatives of different business associations in co-ordination with the government, creating a common interest for business. Other recent initiatives include parliament's approval of state financing for consultancy projects for entrepreneurship, under which 50% of such consultancy costs will be financed by the state. As regards administrative and judicial capacity, funds and personnel within the Ministry of Economic Affairs are being increased to deal with the business environment. While steps have been taken to improve judicial capacity, judicial reform, including the establishment of a professional court administration and administrative courts, has only started.*



### C. COMMITMENTS AND REQUIREMENTS ARISING FROM THE ACCESSION NEGOTIATIONS

As we approach the actual date of accession and the entry into force of the mutual rights and obligations enshrined in the Treaty of Accession, it is necessary to focus efforts on ensuring that Latvia is fully prepared in all areas of the *acquis* from the start of its membership. In other words, Latvia must meet its commitments and requirements arising from the accession negotiations.

In the 2002 Regular Report on Latvia, the Commission found that:

*“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.”*

As regards the administrative capacity to implement the *acquis*, the overall findings were as follows:

*“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.”*

As part of its continuous monitoring, the Commission services addressed two letters to Latvia in March and June 2003 expressing concern over its preparedness in the field of capital movements within the chapter on free movement of capital, the maritime sector within the transport policy chapter, administrative capacity within the taxation chapter, the reform of the judiciary, including legislation, implementation structures and training within the chapter on justice and home affairs, computerisation and IT interconnectivity within the customs union chapter and the alignment and implementation structures in the area of structural action expenditure within the financial control chapter, and calling for urgent action to remedy these shortcomings.

In order to give further guidance to Latvia in its preparation efforts and to give the necessary assurance to current Member States and other future Member States, this part of the comprehensive monitoring report, in Section 2, gives an overview of where Latvia currently stands in implementing all commitments and requirements arising from the accession negotiations for each of the 29 chapters of the *acquis*. It covers the whole body

of the *acquis*, on a chapter-by-chapter basis, both in terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement.

The principal commitment undertaken by Latvia in the accession negotiations is to be fully prepared for membership in all areas by the date of accession. In a number of areas, however, commitments were made to put in place and implement the *acquis* according to specific timetables even before accession. This report examines the extent to which these commitments have been met, and where delays have occurred, but the principal focus of the assessment remains the requirement that Latvia must be fully prepared as from accession. Naturally, in cases where transitional arrangements have been agreed, their effect on Latvia's obligations is duly reflected in the assessment. For each chapter, a conclusion is provided, which is structured in the following way. On the other hand, it should be underlined that, in order for Latvia to make effective use of its eligibility for Community structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from 1 January 2004 in relation to the implementation of structural funds actions<sup>3</sup>.

*Firstly*, it identifies those areas where Latvia is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be, or is already, in a position to implement the *acquis* from accession. This does not exclude the possibility that certain actions are still to be taken, but these should under foreseeable circumstances not pose particular difficulties.

In a *second* paragraph, the assessment identifies any areas where important further action is still needed in order to complete preparations for membership. In some cases these preparations are ongoing, but enhanced efforts or quicker progress may be called for. These are issues which can still be remedied taking into account the accession date of 1 May 2004 but which require the special attention of the authorities.

*Thirdly*, where relevant, the assessment also identifies issues that are of serious concern. These are areas where serious shortcomings exist which are likely to persist after accession unless immediate remedial action is taken. These issues require the urgent attention of the authorities. In view of their importance for the implementation and enforcement of the *acquis*, the *overall* state of readiness of the public administration and the judicial system and the development of effective anti-corruption measures, together with the question of the translation of the *acquis* into Latvian, are evaluated in a separate Section 1.

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<sup>3</sup> See also the Commission Communication "on the implementation of commitments undertaken by the acceding countries in the context of accession negotiations on Chapter 21 - Regional policy and coordination of structural instruments" of 16 July 2003 (COM(2003) 433 final).

## **1. Administrative and judicial capacity**

### ***Public administration***

Implementation of the reform of the public administration has continued. With the entry into force of the Framework Law on Public Administration in January 2003, which is to be fully implemented by January 2005, the horizontal policy framework is being put in place.

The State Chancellery, now responsible for strategic planning and horizontal coordination of government policy, has become fully functioning. The Secretariat for the Special Minister for Administrative Reform has been wound up and the State Chancellery now plays a leading role, not only in personnel policy development, but also in implementation of the Civil Service Law, development of a unified pay system and implementation of the Public Agency Law as well as supervision of training under the School of Public Administration. Accordingly, the tasks of the Civil Service Administration, under the supervision of the Prime Minister, have been reduced to personnel policy co-ordination and control of the civil service.

The present unclear set-up involving both the Civil Service Administration and the State Chancellery should not be allowed to hamper the necessary development of a strong civil service management. Clear and transparent rules and practices for promotion and career development based on merit and open competition are still needed.

The legal base for the status of civil servants has been established and the implementation of the Civil Service Law has continued with a view to ensuring adequate independence of the civil service, open recruitment and performance appraisal procedures. However, some recent amendments to civil service legislation regarding concentration of civil service management in the centre of the government, together with the Disciplinary Liability Law and other legal acts, are seen to carry some risk of reintroducing politically biased practices in civil service management against the background of a still fragile civil service framework.

The implementation of the new salary system, the so-called unified civil service pay system, met with particular difficulties notably regarding qualification categories, and was therefore suspended. In order to address the current problems, the process is now being reviewed with a view to providing transparent and competitive remuneration in the public sector, starting with increasing salaries in the most problematic sectors. More resolute decision-making is now needed in order to put the process back on track.

With the adoption of the Law on Administrative Procedure in October 2001, the legal base for administrative action and decision-making was defined and efforts of the administration to implement the law are encouraging. The law, which should ensure legal certainty, transparency and accountability of administrative actions through an appeal system, will finally come into force in February 2004. However, some further clarifications are required, for example concerning the judicial review of administrative acts. Generally, mechanisms to ensure better quality legislation should be strengthened, including through training. The strategic policy and budget planning system has started in some key ministries.

Regarding the transformation of state agencies into public agencies in the context of the implementation of the Law on Agencies, new legislation was adopted to re-examine the

situation of each agency (about 70 out of 170 agencies in total) with a view to establishing their final status. This work, now falling under the State Chancellery, needs to be continued and carried out more consistently in order to achieve the objective of more transparency and accountability to government structures.

As concerns training, a well-organised training system for civil servants has been put in place. In 2002, nearly 12 000 civil servants attended training courses at the Latvian School of Public Administration. Training priorities included EU law, institutions and policies; administrative procedures; labour rights; performance assessment; conflict of interests; legal drafting and internal control.

The administrative territorial reform, which started in 1998, is advancing at a slow pace. The originally envisaged creation of 102 larger sized local governments has been revised with a view to decrease their number further. Alternative proposals are now being discussed with the local governments concerned.

The principles of the EU coordination were redefined in June 2003 with a view to accession. Under the supervision of the government, the Ministry of Foreign Affairs assumes a central role in the co-ordination system and ensures continuity of Latvia's positions at different stages of the EU decision-making process. It is responsible for the circulation of information and documentation related to the EU. Line ministries are fully responsible for handling EU matters within their respective policy areas.

### *Judicial capacity*

The new government recognised the need for the reform of the judiciary as a priority, and some steps have been taken to strengthen the effectiveness and independence of the judicial system, including preparation of legislation, enforcement of court decisions, modernisation of courts, training of judges, and the adoption of an additional budget in 2003, primarily to cover salary increases for judges and court staff. Latvia needs, however, to take urgent action to ensure continued and effective implementation of the reform.

The two pieces of legislation which are most important for improving the functioning of the judiciary, the new Criminal Procedure Law and the Law on Judicial Power, are still pending. A comprehensive draft new Law on Judicial Power, aimed at improving the efficiency and independence of the judicial system, was finally not adopted, but some of the envisaged improvements were made already in separate steps.

Regrettably, the draft Criminal Procedure Law, aimed at simplifying and modernising the criminal procedure, including court proceedings, reducing the backlog of court cases, speeding up the consideration of juvenile cases, and extending the use of alternative penalties, is still pending. It is essential to adopt this law without further delay. With the entry into force of the Law on Sworn Court Bailiffs in January 2003, a professional court bailiff institution (101 members) has been established to provide more efficient enforcement of court decisions.

A thorough reform of the judicial administration is scheduled to start in January 2004. The reform entails a transfer of administrative functions from the Ministry of Justice to a Court Administration, supervised by a Judicial Council, to strengthen the independence and efficiency of the court system. The concept regarding the Court Administration, adopted in August 2003, entails the establishment of specialised administrative courts.

The necessary legislative basis for the reform, the new Law on Judicial Power, that provides for the establishment of the Judicial Council and the division of powers between Courts, the Council and the Ministry of Justice, as well as implementing regulations are, however, still pending and its implementation requires further strengthening of administrative capacities. Latvia needs therefore to pay urgent attention to the adoption of this legislation and to the establishment of the related implementation structures, including training.

The entry into force of the Administrative Procedure Law (adopted in 2001) was delayed to February 2004, mainly due to the need to provide for premises and equipment for new administrative courts together with the recruitment and training of new administrative court judges.

In order to address the independence of the judicial system, amendments to the previous Law on Judicial Power, adopted in June 2003, introduced a timetable for gradually raising judges' remuneration, starting from July 2003 (until 2006), when they will be several times higher than before the reform, e.g. LVL 720 (€ 1 137) for a newly appointed judge, compared to LVL 269 (€ 425) today.

It will be important now to keep up the work and implement duly the commitments undertaken in order to increase the standing of the profession and the judicial system as a whole. In this context, efforts to establish and implement a strategy to increase transparency for selection, appointment as well as consistent professional development of judges need to be continued.

The situation regarding pending cases has improved. The number of criminal cases went down to 4 423 in July 2003 (compared to 5 062 in July 2002) and 19 003 civil court cases were pending as of July 2003 (compared to 22 829 in July 2002). The hearing of juvenile cases slightly speeded up in 2002.

The implementation of a training policy for judges and other legal professions has continued, mainly through the Judicial Training Centre. A series of specialised training courses on EU law, human rights, corruption, cybercrimes, customs law, drug-related crimes and international judicial cooperation took place. The training of judges and other legal professions, especially in EC law and human rights issues, continues to depend largely on pre-accession and international support. In order to improve qualifications in these fields and to increase capacity to enforce the *acquis* upon accession, training needs to be intensified and adequate funding from the state budget secured. A long term training strategy for the judiciary should also be developed.

The development of the computerised Uniform Court Information System has been finalised and computerisation of the courts was completed in August 2003. It is now important to ensure that the criminal management system is fully implemented and that an administrative case management system is developed.

In the field of legal aid, planned legislative measures have been delayed. It is important to complete the legal framework to improve citizens' access to justice and to ensure adequate funding of legal aid.

### *Anti-corruption measures*

While a number of measures have been taken, the level of corruption still remains a concern in Latvia. However, the current Government remains strongly committed to further combating corruption. In order to increase the effectiveness of the anti-corruption policy, legislation has been improved and the institutional set-up has been clarified and consolidated through the establishment of a central Corruption Prevention and Combating Bureau (CPCB), fully operational since February 2003. This process should be continued in order to reach tangible results.

In January 2003, a new strategy for preventing and combating corruption was prepared by the newly established CPCB in co-operation with other governmental institutions and NGOs. The aim of the document was to serve as a policy document to increase public confidence. It is now important to complete work to define specific tasks, allocate responsibilities and set implementation timetables.

Some steps have been taken to improve legislation, in particular to empower the CPCB to carry out investigative functions on all corruption cases in the public sector, income and asset declaration by public officials. In addition, in June 2003, amendments to the Public Procurement Law and Administrative Violations Code were adopted. The new rules on procurement provide that all disputed tenders in public procurement are submitted to the CPCB for investigation. Moreover, amendments to the Administrative Violations Code introduced administrative liability for violations of the law on political party financing, and authorised the CPCB to impose on political parties fines up to LVL 10 000 (€ 15 798).

Further legislative developments are required. In particular, amendments to criminal law, establishing liability of legal persons, are essential to complete the legislative basis for efficient anti-corruption policies. So far, however, no time frame for drafting and adoption of these amendments has been set.

The work of the CPCB has been considerably strengthened both in terms of funding and human resources. Its budget was increased fivefold compared to the year 2002. At present, there are 110 employees, and the number of staff could exceed 120 by the end of 2003. All employees of the Bureau have been trained on anti-corruption issues within a special programme prepared in co-operation with the School of Public Administration. While the setting-up of the Bureau is considered to be a very ambitious project among similar bodies, the CPCB's structure and staffing is, however, still under development. It is now important to ensure stability at management level, including appointment of the Head of the Bureau. The Bureau remains vulnerable due to a lack of professionalism in some areas, a stretched budget, a heavy workload, and high expectations from society and other state institutions.

The CPCB has initiated five criminal cases against high ranking officials, namely, for violations of public procurement procedure, for fraud, and for bribery. The Bureau has also asked the courts to suspend the activities of 11 political parties for not submitting financial declarations, and started a thorough examination of 85 cases in the field of public procurement and conflicts of interests. More than 440 claims, enquires and proposals have been received from different institutions and individuals so far.

Several steps to tackle conflicts of interest in law enforcement agencies, State Revenue Service and other public administration bodies have been taken. A series of in-house

investigations have been launched, resulting in the resignation or dismissal of several senior officials in the Ministry of the Interior, the police and the State Revenue Service. At 'street' level, anti-corruption measures have mainly focused on eradicating corruption and related crimes, such as smuggling, by police officers and customs officials. Increases in excise tax revenues suggest that smuggling of excise goods might have indeed decreased in 2003.

It is important to establish efficient and smooth co-operation mechanisms between the other institutions involved in the fight against corruption, including the State Police, Financial Police of the State Revenue Service, State Audit Office and the Prosecutor Office.

The creation of a Parliamentary Commission on oversight of corruption prevention and organised crime combating, is a positive signal. Moreover, the Commission has taken leadership of the oversight of the Bureau and of the promotion of several laws, such as the law on lobbying, political party finance and the establishment of an ombudsman.

Implementation of anti-corruption plans and codes of ethics has continued within the various state institutions such as the customs and police services. In customs, anti-corruption measures include, inter alia, double checking decisions made by officials occupying positions with a high risk of corruption, rotation of customs officers, and the promotion of electronic declarations of goods (10.75 % of all declarations in 2002). 110 customs officials were punished as a result of internal audits in 2002. Both customs and the police have organised training on corruption-related topics. More generally, the Latvian School of Public Administration organised training in 2002 for a total of 1 345 civil servants on issues such as prevention of corruption, conflicts of interest, and ethics in the public sector.

In order to reduce corruption risk among judges, the budget for salaries increased by more than LVL 1 million (€ 1 579 780). Training on the code of ethics was carried out for 50 judges. 160 judges were trained in anti-corruption issues and transparency in courts was increased with the establishment of the court information internet portal.

While public awareness is generally rising, continued efforts are needed to increase awareness among the law enforcement bodies, the business sector and the community in general. Continued attention should be paid to training of public officials, in central and local agencies, including specific measures to minimise the risk of corruption opportunities in the public procurement area.

Latvia continues to participate in the Council of Europe Group of States against Corruption (GRECO). Following GRECO's evaluation report of May 2002, Latvia can be regarded as having implemented eight out of the 15 specific recommendations made by GRECO. While the respective long-term tasks have been included in the national programme for preventing and combating corruption, Latvia needs to continue work concerning recommendations such as strengthening the anti-corruption power of the State Revenue Service regarding banking institutions, enforcing respective legislation particularly regarding investigations, monitoring of police actions, strengthening of co-operation and co-ordination role of the Prosecutor General Office, awareness raising about the witness protection programme, reinforcing efforts in the field of public procurement at all levels and establishing of guidelines for lifting of immunity by Parliament, including of judges. Latvia is to present a report to GRECO on the implementation of the recommendations before end of 2003.

Latvia has ratified the relevant Council of Europe Conventions, with the exception of the Civil Law Convention on Corruption which was approved by the government in October 2002). Latvia participates in the Baltic Anti-Corruption Initiative (BACI), which is supported by the OECD Secretariat.

### *Translation of the acquis into Latvian*

In accordance with Articles 2 and 58 of the Act of Accession, all acts adopted by the Union's institutions and the European Central Bank prior to accession become applicable to the new Member States and are to be published in the Official Journal of the European Union in the new official languages. While the EU institutions take responsibility for the final revision of the translations and of their publication, it falls to the acceding states to produce the translations and to ensure a thorough legal and linguistic revision.

The performance of the Latvian authorities responsible for translation the acquis has been constantly improving since the finalisation process started. Both the numbers of acts provided for finalisation as well as the numbers of acts finalised by the EU institutions seem to be within a safe range according to the Commission's schedule. The production of finalised texts has been impeded by an evolving terminology, but is approaching the figure of 30%. Even though it is vital to keep a vigilant approach to the evolution of the present trend, prospects are reasonably encouraging. Latvian legal terminology has undergone a major change over recent months. However, a stable phase seems to have been attained with the collaboration of all the major partners concerned, including the Latvian Academy of Sciences.

The present flow must be at least maintained to ensure the timely publication of the Special Edition of the Official Journal in Latvian by accession.



## 2. 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 *acquis* chapters. Accordingly, this section opens with an assessment of the *acquis* relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of 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*

The principle of the free movement of goods implies that products must be traded freely from one part of the Union to another. In a number of sectors, this general principle is supplemented with a harmonised regulatory framework, following the "old approach" (imposing precise product specifications) or the "new approach" (imposing general product requirements). The transposition of harmonised European product legislation represents the vast majority of the content of this chapter. In addition, efficient administrative capacity to apply horizontal and procedural measures in areas such as standardisation, certification and market surveillance is essential. This chapter also covers detailed EC rules on public procurement, requiring specialised implementing bodies.

The **horizontal and procedural measures** necessary for the administration of the Community product *acquis* in the new approach sector are in place. Legislation has been transposed and is in line with the *acquis*. The implementation structures for standardisation, metrology, accreditation, conformity assessment and market surveillance are all in place. Training programmes being carried out by these bodies should ensure their operational efficiency by the date of accession. Latvia's standardisation body applied for CEN and CENELEC membership and expects to be member by the end of 2003.

Latvia has transposed all of the **sectoral legislation** under the **new approach** and in general the legislative transposition has been found to be in line with the *acquis*.

As regards the **old approach** directives, Latvia has transposed most of the *acquis* in these product sectors following the adoption of legislation aiming at alignment in the areas of legal metrology and pre-packaging, chemicals, cosmetics, motor vehicles, glass, textiles, footwear and wood. Transposition of the *acquis* on pharmaceutical products for human and veterinary use remains partial. Latvia has taken the steps necessary to ensure the creation, reinforcement, and operational capacity of the institutions required to manage the *acquis* regarding the sectors covered by old approach directives. Having recognised that the identification of "new" chemical substances on its market is a matter of priority, Latvia should provide for the appropriate notification of such substances in accordance with the *acquis*.

As regards foodstuffs, Latvia needs to further transpose the foodstuffs *acquis* adopted from 2001 onwards. Latvia also still needs to transpose legislation on irradiation. The legislation in the field of particular nutritional uses, contact materials and official control need to be further amended. Further attention is required as regards the strengthening of administrative capacity, in particular inspection activity should be increased, adequate

sampling programmes should be developed and performed, and new analytical methods should be implemented. Latvia has made adequate progress in its preparation for future membership of the Rapid Alert System for Foodstuffs and Feed. More efforts are needed to ensure appropriate control of genetically modified and novel food. Latvia needs to proceed to implementing the action plan for implementing Hazard Analysis Critical Control Points (HACCP) principles. Particularly important is the training of inspectors to audit the implementation of HACCP principles and the establishment of Guides to Good Hygiene Practice. Aspects of food safety are also covered under *Chapter 7 – Agriculture*.

In the field of **public procurement**, Latvia's legislation is largely in line with the *acquis*. The amendments, which entered into force in July 2003, brought significant progress to the legislation covering classical sectors. However, some additional adjustments are still required, notably with respect to thresholds and several exceptions. The legislation covering utilities also needs to be amended, in particular as regards coverage and publicity. The Procurement Supervision Bureau has been established and is operational. However, administrative structures need to be further strengthened in order to comply with the requirements of the *acquis*.

In the **non-harmonised area**, the screening of Latvian legislation possibly in contradiction with the principle of free movement of goods is ongoing. This screening must be completed and the identified barriers must be removed, in particular as regards the licensing systems applicable to alcohol, tobacco products and fuel. Latvia still has to implement the principle of mutual recognition. The *acquis* as regards arms control has largely been transposed, even if some clarifications are still needed. The *acquis* regarding cultural heritage objects has been transposed with the adoption of the regulation on the return of unlawfully exported art and antique. Latvia still has to implement the EU rules on control of product safety at external borders and efforts in this area will have to be stepped up to ensure an effective system of safety controls as of accession.

### *Conclusion*

Latvia is essentially meeting the requirements for membership as regards the **horizontal and procedural measures** necessary for the implementation of Community legislation in the new approach sectors and the **new approach sectoral legislation**. Once the remaining work is completed, Latvia should be in a position to implement this *acquis* from accession.

Latvia is partially meeting the requirements in respect of the **old approach sectoral legislation, public procurement** and the **non-harmonised area**. Certain aspects of the old approach legislation must still be transposed, in particular as regards foodstuffs. Additional efforts should be made to provisionally notify "new" chemical substances prior to accession so as to ensure the continued marketing of such substances. Latvia must pay particular attention to abolishing the identified barriers to trade and to completing the alignment with EC rules on public procurement. Enhanced efforts are also needed to ensure the implementation and enforcement of the principle of mutual recognition.

### *Chapter 2: Free movement of persons*

The *acquis* under this chapter provides for non-discriminatory treatment of workers who are legally employed in a country other than their country of origin. This includes the

possibility of cumulating or transferring social security rights, which requires administrative cooperation between Member States. In order to facilitate the practice of certain professions, the *acquis* under free movement of persons also includes specific rules concerning mutual recognition of qualifications and diplomas; for certain professions a harmonised training curriculum must be followed to be able to use the professional title. Furthermore, this area also covers the residence and voting rights of EU citizens in any Member State.

In the field of **mutual recognition of professional qualifications**, Latvia's legislation is not in line with the *acquis*. Legislation on the general system of recognition remains to be amended. Moreover, further legislative work is necessary in the form of the adoption of implementing regulations. The implementation of the relevant sectoral legislation on the recognition of qualifications of doctors, dentists, general care nurses, midwives, veterinary surgeons, pharmacists and architects is deficient and urgently needs to be improved. Furthermore, legislation concerning lawyers and commercial agents also shows substantial shortcomings. The necessary implementing administrative structures are in place but need to be strengthened.

In the area of **citizens' rights** legislative alignment has been largely completed, except on legislation on the right to participate in municipal and European Parliament elections. The main administrative structures for implementation are in place.

As for **free movement of workers** a transitional arrangement has been agreed. For the first two years following accession, current Member States will apply national measures, or bilateral agreements, to regulate the access of workers from Latvia to their labour markets. These arrangements may continue up to a maximum of seven years. Legislative requirements on language proficiency and their implementation must be in full respect of the principles of justified interests, proportionality and non-discrimination and can only be applied in very exceptional circumstances, on a case by case basis. Latvia's legislation in the area of free movement is in line with the *acquis*.

With regard to **co-ordination of social security systems** no transposition into national legislation is needed to achieve alignment with the *acquis*, but appropriate administrative capacity needs to be ensured.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements in the area of **citizens' rights, free movement of workers and co-ordination of social security systems**. Some adjustments need to be made as soon as possible to the legislation on foreigners to allow EU citizens to participate in municipal and European elections of June 2004. The ongoing measures to ensure adequate administrative capacity in these areas should continue.

The requirements relating to the **mutual recognition of professional qualifications** are only partially met. In order to complete preparations for membership in this area, Latvia must substantially enhance its efforts to implement the relevant legislation as regards pharmacists and architects. Latvia also has to reinforce its administrative capacity to implement the *acquis* on mutual recognition of qualifications.

The implementation of the legislation on the general system directives, lawyers, commercial agents, and on mutual recognition and minimum standards of training for the

healthcare professions is substantially deficient and gives rise to serious concern. Unless immediate remedial action is taken across an important and extensive range of issues, Latvia will not meet the requirements for membership in this area.

### ***Chapter 3: Freedom to provide services***

Under this chapter, Member States must ensure that the right of establishment and the freedom to provide services anywhere in the EU is not hampered by national legislation. In some sectors, the *acquis* prescribes harmonised rules which must be respected if the internal market is to function; this concerns mainly the financial sector (banking, insurance, investment services and securities markets) but also some specific professions (craftsmen, traders, farmers, commercial agents). Harmonised rules concerning personal data protection and certain information society services must also be respected.

In the field of the **right of establishment and the freedom to provide non-financial services**, Latvia needs to complete the screening for obstacles caused by legal and administrative restrictions, and those obstacles identified must be removed upon accession in order to comply with the principle of free provision of services. In this context, amendments to the Law on security services remain to be adopted. The distinction between economic operators providing services temporarily in Latvia and those established permanently should be reflected in the Latvian legislation in order to ensure the free provision of cross-border services.

In the field of financial services, Latvia has completed the legislative alignment with the *acquis* in the **banking sector**. Latvia has committed itself to ensuring full application of the *acquis* in respect of deposit-guarantee schemes by the end of 2007, in accordance with the transitional arrangement it has been granted.

As regards the **insurance sector**, core-provisions on life and non-life insurance are transposed. Latvia must still adopt the legislation on reinsurance and insurance against civil liability for inland motor vehicles. The procedure for Latvia becoming a signatory of the 'green card' Multilateral Guarantee Agreement, as foreseen in the 1<sup>st</sup> motor vehicle directive, still needs to be finalised and efforts should be made to cope with the responsibilities linked to this status.

In the field of **investment services and securities markets**, Latvia still has to transpose substantial parts of the Investment Services directive, as well as one of the recent directives on Undertakings for Collective Investment in Transferable Securities. Further legislative amendments are still needed, in particular regarding the transposition of the *acquis* on settlement finality in payment and securities settlement systems. Latvia has committed itself to ensuring the full application of the *acquis* in respect of investor compensation schemes by the end of 2007, in accordance with the transitional arrangement it has been granted. The Financial and Capital Market Commission essentially has the required infrastructure and human resources to deal with the *acquis*-related tasks as a unified autonomous supervisory authority for the financial sector. The directive on financial collateral remains to be transposed.

Concerning the **protection of personal data and the free movement of such data**, the recent amendments to the law on personal data protection only tackled a limited number of outstanding issues. Latvian legislation is thus not in line with the respective *acquis*

regarding important data protection provisions. The lack of sufficient independence needs still to be addressed.

As regards **information-society services**, Latvia's legislation is broadly in line with the *acquis*. However, the more recent *acquis* on electronic commerce and transparency remains to be transposed and implemented before accession. The administrative structure still needs to be established, and the human resources necessary for effective implementation and enforcement of the *acquis* need to be allocated.

### *Conclusion*

Latvia is essentially meeting the requirements for membership and is expected to be in a position to implement the *acquis* in the area of **banking** by the time of accession. It should complete preparations in this sector.

Latvia is partially meeting the requirements for accession in the areas of **insurance, investment services and securities markets**, as well as in the field of **the protection of personal data and information-society services**. In order to complete preparations for membership, a number of major directives remain to be properly transposed in these areas. This work must now be accelerated. Enhanced efforts are also needed to remove all administrative and legal restrictions on the **right of establishment and the freedom to provide non-financial services**.

### *Chapter 4: Free movement of capital*

Under this chapter, Member States must remove all restrictions in national law on the movement of capital between themselves, but also with third countries (with some exceptions) and adopt EU rules to guarantee the proper functioning of cross-border payments and transfers of all forms of capital. The *acquis* under this chapter also includes harmonised rules on payments systems and the fight against money laundering, requiring adequate enforcement capacity.

In the area of **capital movements and payments**, Latvia is to a large extent in line with the *acquis*, but a few further measures remain to be taken. It still has to remove restrictions concerning citizenship and language requirements in the Law on security services. With regard to two funds administering the compulsory civil liability insurance for motor vehicles, Latvia still needs to adopt the legislation on investment conditions in order to comply with the *acquis*. Latvia must liberalise the real estate transactions not covered by transitional arrangements and adopt the necessary amendments to bring the regime of taxation of companies' dividends in line with the *acquis*. A new law dealing with privatisation has been adopted.

In accordance with an agreed transitional arrangement, Latvia will remove restrictions on the acquisition of agricultural land and forests by EU nationals and by EU companies by May 2011 at the latest.

In the field of **payment systems**, Latvia is completing its legislative alignment while most of the implementing structures are in place and function adequately.

In the area of **fight against money laundering**, Latvia is in line with the *acquis*. In terms of implementing structures, the financial intelligence unit has to continue to be further

strengthened both in terms of staff and equipment, especially to maintain the security of data and premises (*see also chapter 24 – Justice and home affairs*).

### *Conclusion*

Latvia is essentially meeting the requirements for membership and should be in a position to implement the *acquis* in the area of **payment systems** and the **fight against money laundering** from accession. A limited number of specific issues will still need to be addressed in these areas before accession. Latvia must continue to reinforce its administrative capacity to implement the *acquis* on money laundering.

The commitments and requirements in the area of **capital movements and payments** have been partially met. In order to complete preparations for membership, Latvia has to eliminate all remaining restrictions to free movement of capital.

### *Chapter 5: Company law*

Under this chapter, Member States must adopt and apply harmonised rules required for the proper operation of companies in the internal market. They concern five legislative fields: company law in the strict sense, accounting law, intellectual property rights, industrial property rights, and the recognition and enforcement of judgements in civil and commercial matters as well as of contractual obligations.

In the field of **company law** as such, Latvia's legislation is largely in line with the *acquis*. Latvia committed itself to alignment with the *acquis* by 1 January 2003, but delays have occurred as regards inter alia the implementation of the Commercial Law including smooth completion of the re-registration process. As regards administrative capacity, further efforts are still needed. Co-operation between the State Enterprise Register, the State Revenue Service, the State Insolvency Agency and Law enforcement institutions needs to be strengthened.

With regard to **accounting**, Latvia's legislation is largely in line with the *acquis*. However, further amendments to the Law on annual accounts of undertakings and to the Law on consolidated annual accounts remain to be adopted to allow fair value accounting, including derivatives in consolidated and individual annual accounts. The administrative structures are adequate.

In the field of **protection of intellectual and industrial property rights (IPR)**, on copyright and related rights Latvia's legislation is meeting the majority of the commitments. However, important parts of the recent directive on copyright in the information society remain to be transposed. The *acquis* on the legal protection of designs and on the legal protection of biotechnological inventions remains to be transposed.

Specific transitional rules will apply in relation to pharmaceutical product patents, involving the non-application of Community exhaustion to certain exports from Latvia, as regards the granting of supplementary protection certificates for medicinal and plant protection products, and in relation to the extension of registered or pending Community trademarks to the territory of Latvia.

As regards enforcement of IPR, administrative structures are in place but need to be strengthened. Training especially of judges and prosecutors needs to be intensified.

Staffing has been increased and training carried out, but there remains a lack of resources. Further efforts are needed especially to cope with the high levels of piracy in the sectors of music, videos and software. Better co-ordination among enforcement bodies (in particular customs, police and the judiciary) needs to be pursued. The new Law on Criminal Procedure, which should help to make judicial enforcement in IPR-related cases more effective, still needs to be adopted.

The **Regulation replacing the Brussels Convention** on mutual recognition and enforcement of foreign judgements in civil and commercial matters will be directly applicable upon accession, and accession to the **Rome Convention** will only be possible upon accession. Latvia should designate the relevant courts or other authorities to ensure swift implementation of these provisions (*see also Chapter 24 - Justice and home affairs*).

### *Conclusion*

Latvia is essentially meeting the requirements for membership, and is expected to be by accession in a position to implement the *acquis*, in the areas of **company law** and **accounting**, and the **Regulation replacing the Brussels Convention** and the **Rome Convention**. The transposition of the company law and accounting *acquis* will need to be completed.

The majority of commitments and requirements arising from the accession negotiations in the field of the **protection of intellectual and industrial property rights** have been met. Further legislative adjustments are required in respect of copyright and related rights, and in particular with respect to the information society rules. Although the legislation is mostly in line, enhanced efforts must be made to strengthen enforcement of intellectual and industrial property rights. Better co-ordination among enforcement bodies is required, training of enforcement bodies is needed (mainly, customs, police and judiciary) and the efficient functioning of the judiciary should be given particular attention.

### *Chapter 6: Competition Policy*

The competition *acquis* covers both anti-trust and state aid control policies. It includes rules and procedures to fight anti-competitive behaviour by companies (restrictive agreements between undertakings and abuse of dominant position), and to prevent governments from granting state aid which distorts competition in the Internal Market. Generally, the competition rules are directly applicable in the whole Union, and Member States must fully co-operate with the Commission on the enforcement of these rules.

In the **anti-trust** sector, Latvia has adopted legislation containing the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. However, 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. Preparations should also be made for the application of the EU's new procedural regulation.

Latvia has the necessary implementing structure in place. However, priority needs to continue to be given to increasing the level of resources of the Competition Council, including its investigative Competition Bureau. Efforts must be stepped up to enhance

the competence of staff, as well as to decrease its turnover rate. The proper functioning and independence of the Council in its decision-making capacity must still be ensured (including the appointment of all five members). Further efforts are needed to raise awareness of anti-trust rules of all market participants and to build up a credible and transparent competition culture. Special training for judges should be further developed.

The enforcement record is generally satisfactory. However, in order to ensure further strengthening, priority needs to be given to cases, which most seriously distort competition. Furthermore, more deterrent sanctions should be imposed.

In the field of **state aid**, Latvia has adopted state aid rules covering the main principles of the *acquis*. A new State aid control Law has entered into force taking into account recent developments of the *acquis*. As regards the legislation on Special Economic Zones and Free Ports, Latvia has made further amendments to its legislation bringing it closer in line with the *acquis*. The necessary implementing structures are in place, and the State Aid Surveillance Commission and its secretariat, the State Aid Control Department of the Ministry of Finance, are functioning well. Further efforts are needed to raise awareness of state aid rules among all market participants and aid grantors. Latvia must also pay further attention to training the judiciary.

The enforcement record is generally satisfactory. Latvia should continue to ensure that all aid measures are monitored and controlled.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations in the **state-aid** area and is expected to be in a position to implement this *acquis* from accession. In completing preparations for membership, Latvia must continue to develop a track record of proper application and enforcement of state aid legislation.

Latvia is meeting the majority of the commitments and requirements in the area of **anti-trust**. In order to complete preparations for membership, Latvia must step up its efforts to strengthen the administrative structures needed to implement the anti-trust *acquis* more effectively. Latvia should complete the legislative fine-tuning that will enable such strengthening of the enforcement record.

### *Chapter 7: Agriculture*

The agriculture chapter covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement by an efficient public administration are essential for the functioning of the common agricultural policy. This includes the setting up of management systems such as a Paying Agency and the Integrated Administration and Control System, which are covered under "horizontal issues" below, and also the capacity to implement rural development actions. The acceding countries must be ready to be integrated into the common market organisations for a range of agricultural products, including arable crops, fruits and vegetables, and meat. Finally, this chapter covers detailed rules in the veterinary field, which are essential for safeguarding animal health and food safety in the internal market, as well as in the phytosanitary field, including issues such as seed quality, harmful organisms and plant protection products.



## **Horizontal issues**

The Rural Support Service has been assigned, formally, as a **Paying Agency** to be responsible for the administration of national and EU support to rural areas, agriculture and forestry. A substantial amount of work remains to be done (such as agreements with delegated bodies, written procedures, development of IT systems) if Latvia is to have a functioning Paying Agency by the date of accession.

With regard to the **Integrated Administration and Control System (IACS)**, Latvia has made good progress so far, but much remains to be done if Latvia is to have a fully functioning IACS by accession. Particular attention should be given to ensuring that the IT software is ready according to the timetable.

The legal framework concerning **trade mechanisms** still needs to be adopted. The main administrative institutions concerned are the Rural Support Service, the Customs Board and the Food and Veterinary Service. Administrative structures and procedures remain to be completed. Accelerated efforts are required in the customs field.

The administrative structures concerning **quality policy** have been put in place. The Food and Veterinary Service is expected to perform the state supervision and handling of **organic farming** food. Latvia has met the commitments and requirements arising from the accession negotiations in the area of **Farm Accountancy Data Network (FADN)** and is expected to have implemented the FADN by accession.

**State aid** measures in the field of agriculture remain to be brought in line with the *acquis* at the time of accession.

As concerns direct payments to farmers, the Latvian government has decided to implement the single area payment scheme (SAPS) in the first years after accession.

## **Common market organisations (CMOs)**

The Rural Support Service is responsible for implementing the *acquis* in the field of **arable crops**. Further progress is required on intervention centres and private storage.

Most implementing legislation for marketing standards of **fruit and vegetables** has been adopted. However, legislation on the control of EU marketing standards and on procedures for the recognition of producers' organisations as well as control of operational fund remains to be adopted. The mechanisms for reporting entry prices remain to be set up.

Legislation concerning **sugar** has been transposed partly. Further rules are necessary for full harmonisation of the quota system, in particular the super levy and the communication system. A national quota system has been established (2000). The structures responsible for the administration of the common market organisation have been designated but need further upgrading for proper management of the CMO. Procedures for the different mechanisms of the CMO of sugar are established to a limited extent. Inter-professional agreements need to be developed.

In the area of **wine and alcohol**, the CMO for wine remains to be fully set up. Legislation regarding "champagnised wines" remains to be brought in line with the *acquis*. Legislation on labelling of wines has to come into force. Ex officio protection remains to be ensured effectively.

The implementing legislation for the main mechanisms of the common market organisation for **milk**, including the allocation and administration of milk quotas, remains to be adopted. Most mechanisms of the common market organisation for milk and milk products as well as the quota system remain to be put into place. The Rural Support Service is to be the main body responsible for the implementation of the common market organisation together with the Breeding Information Data Processing Centre managing mainly the milk quota system. The system has to cover all producers and the direct sellers need to be identified and covered. There is a need to develop an information system accessible to all participants.

Legislation remains to be adopted in the **beefmeat and sheepmeat** sector. In particular, the adoption of legislation on carcass classification and its practical implementation has been significantly delayed. Price reporting cannot be correctly implemented as long as carcass classification is not carried out according to EU requirements. Concerning **pigmeat**, administrative structures for carcass classification and the price reporting system remains to be put into place by the date of accession.

As far as **eggs and poultry** are concerned, administrative structures regarding marketing standards, price reporting, and the reporting of production statistics remain to be put into place by the date of accession.

### **Rural development**

Some implementation procedures for rural development measures remain to be completed. The Rural Support Service will be responsible for the administration of all EU financed rural development. Additional staff has been recruited, both centrally and in the regional offices to reinforce those already operating the SAPARD programme. The formal draft rural development plan for EAGGF Guarantee expenditure has been submitted to the Commission.

### **Veterinary and phytosanitary issues**

A special effort needs to be made as regards legislative alignment in the veterinary field as the level of transposition to date is relatively low.

The transposition of legislation on transmissible spongiform encephalopathies (**TSEs**) and **animal by-products** has been partly achieved. TSE surveillance is not yet in compliance; in particular, testing remains insufficient. The removal of SRM is close to compliance. The collection and treatment of animal waste still not in compliance, mainly because there is no system for the collection of cadavers and the rendering and incineration plant are not yet in place. There is a total feed ban in place but is not yet properly controlled.

The transposition of legislation on the **veterinary control system in the internal market** has been largely adopted but some significant adjustments are still required. Administrative structures need to be strengthened. Latvia has not joined the computerised network linking veterinary authorities, ANIMO. The legislation transposing the *acquis* concerning the identification and registration of animals is in place with the exception of sanctions and control issues. The bovine ID and registration database is in place. The transposition of the *acquis* on the financing of veterinary inspections and controls has been partially achieved. Implementation has not taken place yet. As regards veterinary checks on third country imports and rules for imports, legislation concerning intra-community trade and imports from third countries remains to be finalised. Only two

Border Inspection Posts (no ports included) are foreseen to be in compliance by the date of accession.

Some legislation still needs to be transposed in the area of **animal disease control** measures. Latvia has joined the Animal Disease Notification System (ADNS). The contingency plans for classical swine fever, foot and mouth disease, Newcastle disease and avian influenza have been provided. Legislation on **trade in live animals and animal products** remains to be transposed

Legislation on **public health** protection has been largely transposed, except in the poultry meat and egg products sectors. Latvia has been granted a transitional arrangement until January 2005 for 29 fish processing establishments and 11 milk processing establishments and until January 2006 for 77 meat establishments. Products from these establishments will be restricted to the national market. The review plan on upgrading the establishments has been provided, however the situation of certain establishments needs to be reassessed. The system of raw milk quality control is not in full compliance with EU requirements.

The *acquis* concerning **common measures** (including zoonoses) has been transposed both for zoonoses and residues. Attention must be given to improving the implementation of controls in relation to residues and veterinary medicinal products. The diagnostic methods applied to all samples at animal level collected for monitoring purposes should be adjusted to comply with international recognised methods and standards.

Important elements of EU legislation have not yet been transposed in the area of **animal welfare**, notably the height of battery cages, space allowances for laying hens and the tethering of calves. The administrative structures and the necessary capacity are in place both at central and local levels. Stunning remains to be improved. Further training in the application of the new legislation is also needed.

In the field of **zootechnics**, the monitoring of transposition needs to be completed. The maintenance of herd books by breeding organisations or specific ministries/departments has also to be monitored.

Despite the fact that the law on animal feeding stuffs is already in force, some parts of the *acquis* on **animal nutrition** remain to be transposed and fully implemented.

The transposition of **phytosanitary** legislation is at a rather advanced stage although it is not complete. In the field of quality of seeds and propagating material, the legislation that has been transposed remains to be implemented. The national seed-testing laboratory has been accredited by the International Seed Testing Association. Concerning harmful organisms (plant health), the legislation that remains to be transposed concerns the protected zones and the notification of interceptions. The registration of operators has been finalised. For plant protection products, the legislation concerning maximum residue limits remains to be transposed.

Latvia has to ensure that international veterinary and phytosanitary agreements are brought into compliance with the EU *acquis* by accession.

A new Food Council with representatives from several ministries now has a co-ordinating role in relation to food safety issues. Aspects of food safety are also covered in Chapter 1.

## *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations, among the horizontal issues as regards **quality policy** and **organic farming**, the **Farm Accountancy Data Network (FADN)** and **state aid**; among the common market organisations (CMOs) as regards **arable crops, fruit and vegetables, wine, sheep and pigmeat** and **eggs and poultry**; and as regards **rural development**. In the veterinary field, the requirements are essentially met as regards **zootchnics** and **animal nutrition**. Subject to good progress being maintained in these areas, Latvia should be in a position to implement the *acquis* from accession.

Latvia is partially meeting the commitments and requirements for membership as regards the horizontal issues of the **Paying Agency**, the **Integrated Administration and Control System (IACS)**, **trade mechanisms**, the CMOs for **sugar, milk** and **beefmeat**;; in the veterinary field as regards **veterinary control systems in the internal market, public health protection** (for the upgrading of agri-food establishments), **trade in live animals and animal product, animal disease control measures, common measures, animal welfare** and **phytosanitary issues**. In the area of beefmeat, significant efforts still need to be made in order to rapidly adopt and implement the necessary legislation and to correctly implement price reporting. Unless efforts are accelerated in these areas, there is a risk that functioning systems will not be in place by accession.

There are serious concerns about Latvia's preparations in the area of **TSEs and animal by-products** as regards the setting up of a system of collection of cadavers and the building of rendering and incineration plants. Substantial additional efforts are urgently needed in this area. Unless immediate remedial action is taken, Latvia will not be in a position to implement the *acquis* in this area by the date of accession.

## *Chapter 8: Fisheries*

The *acquis* on fisheries consists of regulations, which do not require transposition into national legislation. However, it requires the introduction of measures to prepare the administration and the operators for participation in the Common Fisheries Policy (in the areas of market policy, resource and fleet management, inspection and control, structural actions and state aid). In some cases, existing fisheries agreements or conventions with third countries or international organisations need to be adapted.

In the field of **resource and fleet management and inspection and control**, the Law on Fisheries has been amended in line with the *acquis*. Legislation on commercial fishing is in line with the *acquis* although some amendments to the implementing legislation on resource management and inspection and control of fishing are still needed. Legislation on fleet registration and safety requirements has not yet been adopted. A fishing vessel registration database has been established at the National Board of Fisheries. The data on fishing vessels with fishing licences, operating in the Baltic Sea (currently 197 vessels) and high seas (9 vessels) for commercial purposes, is available. The rate of the re-measurement of fishing vessels is currently 37%, but re-measurement should be completed upon accession. As agreed in the accession negotiations, there will be a specific management regime for the Gulf of Riga. Enhancement of administrative capacity continues while current staffing levels and co-ordination among the various institutions are not yet satisfactory. This is particularly relevant as regards human resources available for control and enforcement. The control system is too dependent on a

category of staff (landing controllers) with inadequate powers of enforcement. Control equipment is lacking. The satellite monitoring of fishing vessels is in place and the Fishing Vessels Monitoring Centre (FMC) is operational. According to the latest figures, all vessels above 24 metres in length are equipped with satellite tracking devices (Vessel monitoring System or VMS). The integrated control and information system in fisheries (ICIS) has been established and is operational. However, routines for the collection of data need to be improved.

In the area of **structural actions**, the chapter on fisheries in the Latvian Single Programming Document (Development Plan) has been submitted to the European Commission. Additional staff needs to be allocated to the Rural Support Service of the Agriculture Ministry for the administration of the Financial Instrument for Fisheries Guidance (FIG).

Regarding **market policy**, the amendments to the Food Circulation Monitoring Law are in line with the *acquis*. The implementing legislation stipulating the recognition criteria, the recognition procedure and control of operations of producer groups, together with the legislation concerning marketing standards, fishery freshness, size criteria and aquaculture remains to be transposed. The administrative structures in the area of producers' organisations have not yet been established.

As regards **state aid** to the fisheries sector, Latvia allocates aid with the annual state support programme for agriculture. The aid measures have to be brought into conformity with the *acquis* by accession.

Concerning **international fisheries agreements**, Latvia has reached a solution with Estonia, Lithuania and Russia on the division of the block quotas of the North Atlantic Fisheries Organisation (NAFO). Latvia has not yet withdrawn from the International Baltic Sea Fisheries Commission (IBSFC).

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations, and is expected to be in a position to implement the *acquis*, in the area of **structural actions**, **state aid** and **international fisheries agreements**. However, some adjustment is needed in order to reach an adequate level of administrative capacity in the area of structural actions.

Latvia is meeting the majority of the commitments and requirements for membership in the area of **market policy**. Attention must be given to the adoption of implementing legislation related to the creation of producers' organisations. As regards **resource and fleet management, and inspection and control** Latvia is partially meeting the commitments and requirements. In particular, enhanced efforts are required in the adoption of the legislation on fleet registration and safety requirements. Special attention must be given to the strengthening of the system of control of landings and follow-up on infringements.

### *Chapter 9: Transport*

EC transport legislation aims at improving the functioning of the Internal Market by promoting efficient and environment- and user-friendly transport services. The transport *acquis* covers the sectors of road transport, railways, aviation, maritime transport and

inland waterways. Member States are required to adopt and implement legislation concerning technical and safety standards as well as social standards. In order to further develop the European Single Transport Market, EC legislation also includes rules on market liberalisation. An important aspect of EC maritime policy is the establishment of Union-wide maritime safety standards.

As far as the **trans-European transport networks** are concerned, the necessary administrative capacity (in both qualitative and quantitative terms) needs to be reinforced beyond its present level in order to prepare for the significant investments that will be needed in transport infrastructure .

Within the land transport sector, the transposition of the **road transport *acquis*** continues. The framework legislation has been transposed. Some implementing legislation, especially in the social and technical fields, remains to be adopted. Two transition periods have been granted to Latvia in this area. The installation of tachographs for vehicles registered before January 2001 and operating exclusively on the domestic market is to be accomplished before January 2005, and the introduction of the financial standing criterion for domestic road transport operators needs to be completed by January 2007. Latvia has agreed to a transitional arrangement put forward by the EU concerning gradual reciprocal access to the cabotage market in the road haulage sector (for a maximum duration of five years). Administrative capacity is essentially good, although improvement is required in several areas such as roadside technical inspections, dangerous goods transport and social regulations. However, as regards roadside checks and roadside enforcement, Latvia still has to implement its concept on control in road transport. In particular the staffing structures and the co-ordinating role of the Ministry of Transport need to be clarified, and adequate numbers of specialist roadside units need to be put in place.

In the field of **rail transport**, transposition is taking place according to schedule, but the interoperability *acquis* remains to be transposed and existing legislation needs to be modified regarding charges, cross-subsidy and licensing. In the framework of the ongoing reorganisation process, the capacity of the Railway Inspectorate and the Railway Administration, as well as the relevant department of the Ministry of Transport, should be strengthened further. However, in particular as regards track access charging and capacity allocation, procedures and task allocation should be reviewed and training of staff should be pursued. The independence of the infrastructure allocation and charging function remains to be ensured.

On **inland waterway transport**, legislative alignment is completed. Administrative structures in this area are in place and satisfactory.

In the area of **air transport**, the relevant legislation has been transposed and is essentially in line with the *acquis*, but some modifications are needed, notably with regard to ground handling. Implementing legislation is still being adopted. Administrative capacity needs further strengthening. Full membership of the Joint Aviation Authorities remains to be achieved through the implementation of the Action Plan. Enhanced efforts are needed in order to become a full member before accession as required by the *acquis* and irrespective of the setting up of the European Aviation Safety Agency (EASA).

In the field of **maritime transport**, framework legislation is now in place and in line with the *acquis*. However, the adoption of implementing legislation remains to be completed, notably as regards Flag State and Port State control, Vessel Traffic

Management Information System (VTMIS), system of mandatory surveys for the safe operation of regular ro-ro ferry and high-speed passenger craft services, marine equipment and fishing vessels. The reinforcement and reorganisation of the maritime administration must be pursued and must lead to a more effective oversight of the work of classification societies, to an upgrading of Port State Control and to a better division of tasks between the Maritime Department and the Maritime Administration. According to statistics for 2002 under the Paris Memorandum of Understanding, the percentage of Latvian flag vessels detained following Port State control was 6.25%. This compares with an average for EU-flagged vessels of 3.5% in 2002. The Latvian flag has now been moved from the black list to the grey list of the Paris MOU.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **trans-european transport networks, road transport, rail transport, inland waterway transport and maritime transport**, and Latvia is expected to be in a position to implement the *acquis* in these areas from the time of accession, provided that the current pace of progress is maintained. In completing preparations for membership, Latvia must complete the transposition of the railway *acquis*, in particular as regards interoperability. In the areas of road and maritime transport, Latvia needs to adopt implementing legislation and further reinforce its administrative capacity.

Latvia is meeting the majority of the commitments and requirements arising from the accession negotiations in the area of **air transport**. Latvia needs to strengthen administrative capacity and enhanced efforts are required in order to become a full member of the Joint Aviation Authorities before accession.

### *Chapter 10: Taxation*

The *acquis* on taxation largely covers indirect taxation, as concerns VAT (value-added tax) and excise duties. It lays down definitions and principles of VAT. Excise duties on mineral oils, tobacco products and alcoholic beverages are regulated at EU level as concerns the structure of the duty, the level of minimum rates and the holding and movement of excisable goods. As concerns direct taxation, the *acquis* covers some aspects of corporate taxes and aims mainly at removing obstacles to cross-border activities between enterprises. Finally, the Community legislation in the area of administrative co-operation and mutual assistance provides tools to prevent intra-Community tax evasion and tax avoidance on both direct and indirect taxation.

In the area of indirect taxation, with regard to **VAT** Latvia should align its definition of taxable persons as concerns public authorities and the place of taxation, introduce the special scheme for investment gold and align the special scheme for second-hand goods. Latvia needs to pay particular attention to the transposition of the intra-Community regime. It should also eliminate the numerous and significant discrepancies existing in respect of the scope of exempt transactions and reduced VAT rate, except in the areas where it has obtained transitional periods (see below). Furthermore, Latvia needs to align the discrepancies concerning the provisions for gifts of minor value, freight services, and the right of deduction for capital goods.

Transitional periods were granted as concerns the exemption from VAT rate on the supply of heat energy for private households (until 31 December 2004), and the

application of simplified procedures for charging VAT on timber transactions (for one year after accession). Latvia has also been granted derogations as concerns the continued application of a VAT registration and exemption threshold of € 17857 VAT for small and medium-sized enterprises, and the application of a VAT exemptions on international passenger transport, and on services supplied by authors, artists and performers. As regards the necessary administrative structures, Latvia should accelerate its efforts to modernise and enhance the efficiency of the State Revenue Service, which suffers from a lack of human resources, in particular as concerns control and audit functions. Priority should be given to improving staff policy and to enhancing the collection, control and audit functions. Latvia's implementation capacity is seriously hampered by delays in information technology and interconnectivity (see below).

As concerns **excise duties**, in order to complete alignment Latvia should align the structure of the rate on beer, the scope of exemptions, the duty rates on mineral oils and tobacco products, introduce the provisions for travellers' allowances, and extend the suspension movement regime to intra-community transactions. Latvia also has to eliminate some remaining discrepancies with the *acquis*, concerning the definition of alcoholic products, certain mineral oils, and cigars and cigarillos. The gradual increase of excise duties on cigarettes is proceeding according to schedule, in order to reach the minimum rate level on 31 December 2009, as agreed in the accession negotiations. Latvia has taken the necessary steps to put into place the required administrative structures to apply and implement effectively the *acquis* in the area of excises.

In the area of **direct taxation**, Latvia needs to transpose the directives on interests and royalties and on the taxation of savings income. In order to comply with the principles the Code of Conduct for Business Taxation, Latvia should improve transparency of its legislation on special economic zones and free ports. The necessary administrative capacity is in place, however it needs to be further strengthened especially regarding control and audit functions.

On **administrative co-operation and mutual assistance**, further steps need to be taken. A Central Liaison Office (CLO) was set up and is in the process of being staffed. The Excise Liaison Office (ELO) remains to be established. As concerns the setting up of information technology system, Latvia has recently procured an external VAT information exchange system (VIES) system, trying to limit previously accumulated delays. However, continued serious concerns remain that the Latvian VIES system could not be fully operational by the date of accession. The main reasons are that the systems implementation has not started during the reference period and the system procured is not yet fully tested. Latvia must focus urgent attention on accelerating efforts in this area.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations on **excise duties** and **direct taxation** and is expected to be ready to implement the *acquis* as of accession. Latvia needs to adopt legislation to complete alignment in these areas, as well as to strengthen its tax administration.

In the area of **VAT**, Latvia is partially meeting its commitments. Latvia must urgently accelerate its efforts to align its legislation. Unless significant additional efforts are made there is a risk that Latvia will not be in a position to fully implement the *acquis* in this area. Particular attention must be given to the full alignment of the scope of exempt transactions and the reduced rates, as well as to the introduction of the intra-Community



regime. As for administrative capacity, Latvia must accelerate efforts to modernise its structures, in particular as concerns collection, control and audit functions and personnel policy.

In the area of **administrative co-operation and mutual assistance** there remain serious concern as regard the implementation of the information technology systems, and in particular the interconnectivity to the VIES system, by accession. Latvia must focus urgent attention on accelerating efforts in this area.

### ***Chapter 11: Economic and monetary union***

EC legislation on Economic and Monetary Union (EMU) contains specific rules ensuring the independence of central banks in Member States, prohibiting indirect financing of the state by the central bank, and disallowing privileged access of the public sector to financial institutions. These rules must be transposed into the national legislation, despite the fact that Latvia will not yet adopt the euro as a currency from accession. EMU policy also includes the co-ordination of exchange rate and economic policies, adherence to the stability and growth pact and the statutes of the European System of Central Banks.

In the area of **prohibition of direct financing of the public sector** Latvia has met the commitments and requirements arising from the accession negotiations, and is in a position to implement the relevant *acquis* as from the date of accession.

In the area of **prohibition of privileged access of the public sector to financial institutions**, Latvia has met the commitments and requirements arising from the accession negotiations, and is in a position to implement the relevant *acquis* as from the date of accession, since the rules of investment of pension capital abroad included in the Law on Private Pension Funds were amended.

In the field of **independence of the national central bank**, legislation is in place and in line with the *acquis*. However, the issue of personal independence of members of the central bank remains to be solved. A possibility of judicial review about the decision of dismissing members of the decision making bodies – dealing with ESCB related tasks - should be provided for. The necessary administrative structures are in place and function adequately.

### ***Conclusion***

Latvia has met the commitments and requirements arising from the accession negotiations concerning the **prohibition of direct financing of the public sector** and the **prohibition of privileged access of the public sector to financial institutions** and will be in a position to implement this *acquis* from accession. Latvia is essentially meeting the requirements arising from the negotiations in the area of **independence of the national central bank** and is expected to be able to implement the *acquis* as of accession. Latvia should adopt one final amendment to the Central Bank Law concerning the personal independence of its members.

### ***Chapter 12: Statistics***

The *acquis* in the field of statistics requires adoption of basic principles such as impartiality, reliability, transparency, confidentiality of individual data and dissemination

of official statistics. It also covers methodology, classifications and procedures for data collection in various areas such as statistical infrastructure, macro-economic and price statistics, business statistics, transport statistics, external trade statistics, demographic and social statistics, agricultural statistics and regional statistics. The focal point of the statistical system of a country is the National Statistical Institute, which acts as the reference point for the methodology, production and dissemination of statistical information.

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **statistics** and is expected to be in a position to implement the *acquis* as from accession. However, Latvia still needs to improve the quality and the timeliness of data in certain domains such as national accounts, government finance statistics, data on income and living conditions. Furthermore, Latvia needs to enlarge its production of regional data.

### ***Chapter 13: Social policy and employment***

The *acquis* in the social field includes minimum standards in fields such as labour law, equal treatment of women and men in employment and social security, and health and safety at work. Specific binding rules have also been developed in public health (on tobacco control and surveillance and control of communicable diseases) and recently also with respect to non-discrimination on grounds of racial or ethnic origin, religion or belief, disability, age or sexual orientation. The European Social Fund (ESF) is the main financial tool through which the EU supports the implementation of its Employment Strategy and contributes to social inclusion efforts (implementation rules are covered under Chapter 21, which deals with all structural instruments). The acceding countries are expected to be able to participate in social dialogue at European level, and in the EU policy processes in the areas of employment, social inclusion and social protection.

The transposition of the *acquis* in the area of **labour law** has been completed to a large extent, except in the area of working time for mobile workers in civil aviation. Some minor gaps remain in transposition concerning collective redundancies, working time, young people at work and working time for seafarers. Transposition of the new *acquis* concerning involvement of workers in the European Company and information and consultation of workers is foreseen after accession. An Insolvency Administration has been set up, combining the functions of the guarantee fund and supervision of insolvency processes.

Latvia has to a large extent transposed the *acquis* in the field of **equal treatment of women and men**, although some legal adjustments will still be needed before accession, such as the removal of overprotection of women against night work. The pensionable age for male and female civil servants will have to be equalised upon accession, when the pension scheme constitutes pay within the meaning of the Treaty and EC case law. Implementing structures are largely in place, especially since the establishment of a Gender Equality Council, a co-ordination and advisory body. However, further sustained efforts are needed to enforce efficient co-ordination of gender equality measures.

In the area of **health and safety at work**, most of the legislation has been transposed. Nevertheless, transposition remains to be completed regarding indicative occupational exposure limit values (chemical agents at work). Latvia obtained three transition arrangements relating to the use of work equipment until the end of June 2004, to the

workplace until the end of December 2004 and to display screen equipment until the end of December 2004. The State Labour Inspectorate needs further strengthening in terms of staffing, salaries, training and technical facilities. The risk assessment system needs to be further developed and more emphasis should be put on collective preventive measures. In addition, enforcement and sanctions by the Labour Inspectorate should be made more efficient.

As regards **social dialogue**, the administrative capacity of both the social partners and the Government should be strengthened. The bipartite social dialogue needs to be promoted. Conclusion of collective agreements needs to be facilitated.

In the field of **public health**, the legislative transposition of the *acquis* remains to be completed in the fields of tobacco and communicable diseases. New legislation, in particular rules on communicable diseases notification, surveillance and reporting forms, is required. The list of diseases to be notified, should be revised to include all diseases listed in EU legislation and should include also EU case definitions. Further efforts are necessary to ensure the capacity needed to be incorporated into the Community communicable disease surveillance and control structures. The reform of the public health system needs to continue, also in order to improve the health status of the population, which is much lower than the EU average and to ensure adequate resources for health. The situation with regard to some communicable diseases also gives rise to concern. The establishment of the Health Ministry in January 2003 can be considered as a positive development in this context.

Concerning **employment policy**, efforts are needed to effectively implement the priorities identified in the Joint Assessment of the Employment Priorities (JAP), in particular education, training and lifelong learning systems as well as the strengthening of activation and prevention. Particular attention should also be given to ensure that tax and benefit systems are supportive to job creation and to taking up jobs, as well as to integrating ethnic minorities. Further efforts are needed to strengthen administrative capacity for policy planning and delivery and on resource allocation.

As regards the future establishment of the **European Social Fund (ESF)**, the national regulation specifying responsibilities and tasks as well as delegating the tasks to different institutions was adopted in September 2003. The administrative capacity and institutional building of the Managing and Paying Authority as well as line ministries and intermediate bodies need to be ensured and strengthened. Inter-ministerial co-operation needs to be reinforced. Control provisions as to the ESF need to be ensured at all levels of management. Preparations for participation in the transnational operations of the EQUAL initiative need to be intensified.

The Commission and Latvia are finalising the Joint Memorandum on Social Inclusion (JIM), which identifies key challenges and possible policy orientations for promoting **social inclusion**. On this basis, an integrated strategy and a National Action Plan on social inclusion will have to be developed. Analytical work and social statistics systems on poverty and social exclusion should continue to be developed in line with the EU commonly agreed indicators on social inclusion.

The on-going reforms in the area of **social protection** should continue.

Latvia has incorporated some **anti-discrimination** provisions in its new Labour Law. However, important shortcomings subsists with regard to the full transposition of the

*acquis*. Moreover, the Equality Body required by the *acquis* needs to be established. In this context, Latvia is strongly encouraged to promote integration of the Russian minority by, in particular, continuing to accelerate the speed of naturalisation procedures, and by taking other proactive measures to increase the rate of naturalisation. It is also expected to ensure sufficient flexibility regarding transition to bilingual education in minority schools, and to ensure that at all levels the implementation of the language law respects the principle of justified public interest and proportionality, as well as Latvia's international obligations.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **labour law, equal treatment of women and men, health and safety, social dialogue, employment policy, social inclusion and social protection** and is expected to be in a position to implement this *acquis* as from accession. As regards employment policy, the effective implementation of the priorities identified in the Joint Assessment Paper is necessary to prepare for full participation in the European Employment Strategy.

Latvia is partially meeting the requirements for membership in the areas of **public health, European Social Fund and anti-discrimination**. In order to complete preparations for membership, Latvia needs to transpose the *acquis* on tobacco and communicable diseases and ensure that the planned capacity building measures are being implemented. With regard to European Social Fund, including EQUAL, while considerable progress has been achieved during the last few months, further efforts are urgently needed in order to strengthen the administrative capacity for management, implementation, monitoring, audit and control at both national and regional level. In the area of anti-discrimination, equal treatment legislation remains to be fully transposed.

### *Chapter 14: Energy*

EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment. The energy *acquis* consists of rules and policies, notably regarding competition and state aids (including in the coal sector), the internal energy market (for example, opening up of the electricity and gas markets, promotion of renewable energy sources, crisis management and oil stock security obligations), nuclear energy and energy efficiency. This chapter also covers important aspects of the safety of nuclear installations.

With respect to **security of supply**, and in particular oil stocks, both framework and implementing legislation are in place. Building up of oil stocks is taking place in accordance with the transitional arrangement Latvia has been granted, namely to reach the 90 days of oil stocks required by the *acquis* by the end of 2009. Efforts should be sustained. The administrative capacity required is in place (the State Revenue Service and the Energy Department) but these need to confirm themselves in their role.

In the field of **competitiveness and the internal energy market** (electricity and gas) framework legislation, the Energy Law, is in place and is partially in line with the *acquis*. It must be amended with a sense of priority. Implementing legislation is partially in place and must be completed. Issues such as third party access and the definition of eligible customers need particular attention. Restructuring of the electricity company

“Latvenergo” remains to be completed. The Energy Regulator (Public Utilities Commission) is in place but needs further strengthening. Remaining gas and electricity price distortions need to be removed; further delays need to be avoided. The market opening is taking place in line with commitments made in the negotiations. In the electricity sector approximately 20% of the market is opened up, while in the case of gas Latvia plans to seek a derogation, under the directive, as a non-connected area. Latvia should transpose the recently adopted electricity and gas directives in line with the timetable foreseen by the *acquis*.

In the area of **energy efficiency and renewable energy**, legislative alignment has been largely completed, except with regard to the newest *acquis*, which should be transposed according to the timetables laid down in the directives. The administrative structures are in place but need to be strengthened. A National Energy Efficiency Strategy is being implemented since the year 2000, addressing both energy efficiency and renewable energy issues.

In the field of **nuclear energy and nuclear safety**, Latvia meets the commitments and requirements arising from the accession negotiations and is in a position to implement the Euratom *acquis* as from the date of accession. During the accession negotiations, Latvia committed itself to providing additional information on measures taken to implement the recommendations of the June 2001 Council Report on Nuclear Safety in the Context of Enlargement. Latvia provided such information in November 2001. In June and September 2003, Latvia submitted additional information covering recent progress made in various fields of nuclear safety, including *inter alia* legislation, the Radiation Safety Centre, the radioactive waste management agency RAPA, the administrative capacity and staffing of the nuclear regulatory authority, the new radioactive waste strategy and the strategy for the decommissioning of the Salaspils reactor. Latvia should continue to pay attention to further strengthening the capacity of its newly established radioactive waste management agency RAPA.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations as regards **security of supply, energy efficiency and renewable energy and nuclear energy and nuclear safety** and is expected to be in a position to implement the *acquis* in these areas from accession. Latvia needs to progressively build up oil stocks in line with the schedule agreed during the negotiations. In addition, Latvia must complete alignment by adopting legislation as regards the 2002 *acquis* on energy efficiency and renewable energy. It also needs to continue to further strengthen administrative capacity in the energy sector including in particular the radioactive waste management agency.

Latvia is meeting the majority of the commitments and requirements in the area of **competitiveness and the internal energy market** (electricity and gas). In order to complete preparations for membership, Latvia must focus on the adoption of the amendments to the Energy Law, adopt the necessary implementing legislation, and ensure the opening up of the markets in line with the schedules agreed during the negotiations. Latvia needs to remove remaining electricity and gas price distortions.

## ***Chapter 15: Industrial policy***

EC industrial policy seeks to enhance industrial competitiveness and rates of employment, whilst operating in markets open to international competition. Its aim is to speed up adjustment to structural change, encouraging an environment favourable to initiative and to the development of undertakings throughout the Community. EC industrial policy mainly consists of policy principles and horizontal and sectoral industrial policy communications.

Latvia's **industrial strategy** essentially complies with the concepts and principles of EC industrial policy, i.e. it is market-based, stable and predictable. The industrial policy guidelines should be further implemented. The necessary administrative structures in this area are in place, but are still weak. Strategic analysis and planning capacity needs to be substantially enhanced and co-operation with industry stepped up.

In the area of **privatisation and restructuring**, the implementation of the restructuring policy in a manner that conforms to the competition and state aid *acquis* remains an area for special attention so as to create efficient and competitive firms. The necessary administrative structures in this area are in place, but are still weak.

### ***Conclusion***

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations in the **industrial policy** chapter and is expected to be able to implement the *acquis* as of accession. Latvia should continue to strengthen administrative capacities.

## ***Chapter 16: Small and Medium-sized Enterprises***

SME policy aims to improve the formulation and co-ordination of enterprise policy across the internal market with a view to supporting the development of SMEs. In doing so, it seeks to improve the overall business environment in which SMEs operate. SME policy consists largely of consultation fora and Community programmes, as well as of communications, recommendations and exchanges of best practices.

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations relating to **small and medium-sized enterprises**. Alignment with the new Commission recommendation on the SME definition should be carried out. Latvia should further strengthen the institutions involved in designing and implementing enterprise policy. The implementation of the European Charter for Small Enterprises should be maintained.

## ***Chapter 17: Science and research***

Due to its specificity, the *acquis* in the field of science and research does not require any transposition in the national legal order. However, the necessary implementing capacity needs to be created to allow for effective participation in activities under the Framework Programmes in the field of research.

Latvia has met the commitments and requirements arising from the accession negotiations in the area of **science and research** and will be in a position to implement the *acquis* as from accession.

### ***Chapter 18: Education and training***

Education, training and youth is primarily the competence of the Member States. The Community's *acquis* consists of a directive on education of the children of migrant workers, and of action programmes and recommendations. The necessary implementing capacity needs to be in place to allow for effective participation in the Community programmes related to this chapter (Leonardo da Vinci, Socrates and Youth).

Latvia has met the commitments and requirements for membership in the area of **Community programmes**, and will be in a position to implement this *acquis* from accession. The implementing capacity for Community programmes will need to be enhanced to benefit from additional allocations for decentralised actions following accession.

In the area of **education of children of migrant workers**, due implementation of the *acquis* needs to be ensured.

### ***Conclusion***

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **education and training** and is expected to be in a position to implement this *acquis* from accession. Efforts to implement the *acquis* on education of children of migrant workers should continue.

### ***Chapter 19: Telecommunications and information technologies***

The *acquis* in the field of telecommunications consists mainly of the 1998 regulatory framework and a 2000 regulation, and is aimed at the elimination of obstacles to the effective operation of the single market in telecommunications services and networks, and the achievement of universally available modern services. A new regulatory framework on electronic communications was adopted in 2002 and must be implemented. As regards postal services, the objective is to implement the single market by opening up the sector to competition in a gradual and controlled way, within a regulatory framework which assures a universal service (1997 and 2002 *acquis*).

In the field of **telecommunications**, Latvia's framework legislation is in line with the 1998 – 2000 *acquis*. The 2002 *acquis* remains to be transposed. Implementing legislation remains to be adopted in accordance with an established work plan. While competition in the market has begun, following market opening in January, approved fixed interconnection prices have to become oriented towards cost on the basis of long run average incremental cost methodology. Local loop unbundling needs to be implemented. Moreover, fixed network modernisation and price re-balancing should be continued. While the necessary administrative structures in this area are in place, resources are too limited and full separation of regulatory and operational functions as required has not yet been achieved.

In the area of **postal services**, Latvia's legislative alignment remains to be completed, *inter alia* regarding the license regime, universal service providers, requirements for tariff

principles, transparency and separation of accounts for service providers and standards for quality monitoring for postal services. Administrative capacity in this sector needs to be further strengthened including through further staffing and training. The 2002 *acquis* remains to be fully transposed and implemented.

### *Conclusion*

Latvia is partially meeting the commitments and requirements arising from the accession negotiations in the **telecommunications** and **postal services** areas. Enhanced efforts are required in order to transpose and implement the *acquis* in the telecommunication field, *inter alia* by setting reasonable terms for interconnection and by putting in place local loop unbundling. In order to complete preparations for membership, enhanced efforts must also be made with regard to the transposition of the *acquis* in the postal services sector. Latvia must ensure correct application of the universal service *acquis*. The effectiveness and independence of the common regulator needs to be ensured.

### *Chapter 20: Culture and audio-visual policy*

The culture and audio-visual policy chapter requires legislative alignment with the Television without Frontiers directive and contains the community programmes Culture 2000, Media Plus and Media Training. Alignment with the Television without Frontiers directive creates the conditions for the free movement of television broadcasts within the Community. It implies basic common requirements concerning advertising; the protection of minors and public order; and the promotion of European works.

Concerning **audiovisual policy**, Latvia adopted amendments to its Radio and Television Law related to major events, the broadcast of music by broadcasters under Latvian jurisdiction, the broadcast of in-house production by public broadcasters and the strengthening of sanctioning powers of the National Broadcasting Council. These amendments complete legislative alignment, except on the broadcast of in-house production by public broadcasters.

Latvia meets the requirements for participation in Community activities in the field of **culture**.

### *Conclusion*

Latvia has met the commitments and requirements arising from the accession negotiations in the field of **culture**. Latvia is essentially meeting the commitments and requirements arising from accession negotiations in the field of **audiovisual policy** and is expected to be in a position to implement the *acquis* as of accession. Attention should be given to the issue of in-house production by the public service broadcaster.

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

The *acquis* under this chapter consists mostly of regulations, which do not require transposition into national legislation. They define the rules for drawing up, approving and implementing Structural Funds programmes and Cohesion Fund actions. These programmes are negotiated and agreed with the Commission, but implementation is the responsibility of the Member States. It is essential that Member States respect



Community legislation in general, for example in the areas of public procurement, competition and environment, when selecting and implementing projects, and have the necessary institutional structures in place to ensure implementation in a sound and cost-effective manner from the point of view of both management and financial control.

The **territorial organisation** at the NUTS 2 level has been agreed between Latvia and the Commission. For the NUTS 3 level, Latvia has proposed to modify the existing classification. Discussions on this point will not affect the implementation of the structural instruments.

The essential features of the **legislative framework** are in place. The Act on Budget and Financial Management allows for multi-annual budget programming with a view to providing national co-financing for Structural and Cohesion Funds, and allows for flexibility to adjust the financial tables to changing circumstances. The Act authorises the Minister of Finance to increase the annual appropriations of the State budget in the case of transfers between priorities and funds.

The legislative framework for financial control and compliance with other Community policies is monitored in other chapters. However, in order for Latvia to make effective use of its eligibility for structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from that date. Urgent efforts are needed particularly in the area of public procurement.

The **institutional structures** for the preparation and implementation of the Structural and Cohesion Funds have been approved in September 2003. The Ministry of Finance has been nominated as Managing Authority of the Single Programming Document (SPD). The new Government decision of September 2003, clarifies the roles and tasks of the Managing Authority, the different line ministries and the intermediate bodies. The decision also nominates as intermediate bodies the “Central Finance and Contracting Unit”, the “State Employment Service”, the “Rural Support Service” and the “Professional Education Development Programme Agency”. This decision should now be implemented without delay.

The separation of functions between the Managing and the Paying Authority needs to be ensured and the internal distribution of tasks in the Ministry of Finance remains to be formalised. In addition, some further clarifications on the tasks of different levels of the implementation system are needed at the level of the Single Programming Document.

Structural funds related policy and operational co-ordination among the various ministries requires strengthening. It is expected that the new unit structure of the Ministry of Finance will improve inter-ministerial co-ordination.

The department within the Paying Authority that will perform the certification of expenditure to the Commission has not yet been designated. In addition, an adequate assurance of certification of expenditure and of separation between the certification and approval functions must be ensured.

Internal audit units have been established in all line ministries, but not yet in the Central Finance and Contracting Unit, which is a designated Intermediate Body. An overall audit strategy needs to be established in order to allow links between system audits and sample checks.

The implementation of the human resource development plan for the Structural Funds has been delayed due to the slow process in the setting up of the implementation system and due to difficulty in recruiting new staff. Even though staffing levels in the Managing Authority and the other relevant institutions are being raised, further efforts should be made so as to ensure that adequate implementation capacity is established.

As regards **programming**, the Single Programming Document was submitted in March 2003. The official negotiations were finalised in October 2003. The programme complement is still to be submitted. The final ex-ante evaluation of the SPD, carried out by an independent consultant, was submitted in June.

Efforts have been made to involve stakeholders in the preparation of the programme in application of the partnership principle. The SPD working groups included central and regional administrations, business and social partners, chambers of commerce, etc. Other groups and NGOs were encouraged to participate in the working groups, and public discussions were organised during September 2002.

The Managing Authority is in charge of evaluation. A monitoring committee, including members of the bodies involved in implementation as well as representatives of regional and local authorities, social and economic partners and NGOs, will be set up. A single computerised information system for monitoring Structural Fund implementation is being set up. A cause for concern is the fact that the development of the monitoring system is at a preliminary stage.

Considerable and sustained efforts are needed to establish a pipeline of projects that are ready to be implemented in technical and financial terms so as to enable Latvia to benefit fully from Community funds as soon as the programme starts.

Arrangements have been made for **financial management and control**. Internal audit units have been established in all line ministries, but not yet in the Central Finance and Contracting Unit. The role of these units in carrying out the regulatory requirements of sample checks (5% and 15% on-the-spot checks) and the systems audits should be clarified. Separation between the internal audit function and the management check should be ensured. An overall audit strategy needs to be established in order to allow links between systems audits, the work of internal audit units and sample checks. Steps must be taken to ensure that the tasks of the new financial control unit, to be established in the Ministry of Finance as a winding-up body, does not overlap with, nor decrease the efficiency of, the control mechanisms.

### *Conclusion*

Latvia is essentially meeting the requirements for membership in relation to **territorial organisation** and **programming** for the implementation of actions under the Structural and Cohesion Funds. Provided the further work programme is carried out as envisaged, Latvia should be in a position to meet all requirements in these areas by the start of the programme. As regards programming, Latvia needs to focus on establishing an adequate pipeline of well-prepared projects and setting up a functioning monitoring system.

Latvia is only partially meeting the commitments and requirements arising from the accession negotiations in relation to **legislative framework**, **institutional structures** and **financial management and control**. Latvia must complete implementation of legislation on public procurement and to make sure that final beneficiaries will be in a position to

effectively apply the rules and procedures resulting from the new law in the framework of the Structural Funds in order to benefit from Community funding from 1 January 2004. Concerning institutional structures, Latvia need to clearly define the tasks of the bodies involved in the implementation structure. Continued efforts are needed to ensure proper organisation, effective co-ordination and an adequate level of trained staff in the various authorities involved. Particular attention must be paid to finalising arrangements for internal audit and ensuring proper separation between the audit function and management controls.

## ***Chapter 22: Environment***

Community environment policy aims to promote sustainable development and protect the environment for present and future generations, and is based on the integration of environmental protection into other Community policies, preventive action, the polluter pays principle, fighting environmental damage at source, and shared responsibility. The *acquis* comprises over 200 legal acts covering horizontal legislation, water and air pollution, management of waste and chemicals, biotechnology, nature protection, industrial pollution and risk management, noise, and radiation protection. Ensuring compliance with the *acquis* requires significant investments, but also brings significant benefits for public health and reduces costly damage to forests, buildings, landscapes and fisheries. A strong and well-equipped administration at national, regional and local level is imperative for the application and enforcement of the environment *acquis*.

**Horizontal legislation** is in place and is in line with the *acquis*, except for the recent *acquis* on strategic environmental impact assessment, which needs to be transposed and implemented by July 2004 in line with the Directive. The relevant administrative capacities are in place and function adequately.

In the **air quality** sector, legislation is in place and is in line with the *acquis*, except for the sulphur content of liquid fuels and the recent *acquis* on ozone. Administrative capacities are in place and function adequately. Air quality plans and programmes need to be completed by accession. As regards volatile organic compound emissions from the storage and distribution of petrol, a transitional arrangement until 31 December 2008, with intermediate targets, has been agreed for certain installations in Latvia.

In the field of **waste management**, legislation is in place and is in line with the *acquis*, except for the recent *acquis* on end-of-life vehicles, which needs to be transposed by accession. The administrative capacities are in place and function, but continued attention needs to be paid to staffing at regional environmental boards. The permit and de-registration systems for end-of-life vehicles and the inventory of PCB/PCT need to be established at the latest by accession. The permitting of storage of hazardous waste for less than 12 months also need to be completed by accession. The establishment of waste collection systems and recovery and disposal facilities needs to continue, including the construction of hazardous waste and asbestos landfills by the end of 2004. Transitional arrangements, until 31 December 2007 for packaging waste and until 31 December 2004 for the temporary storage of hazardous waste under waste landfill, with intermediate targets, have been agreed.

In the area of **water quality**, legislation is in place and is in line with the *acquis*, except for implementing regulations concerning the recent framework *acquis* on water, which remain to be adopted by accession. Administrative capacities are in place and function,

but require continuous attention, especially as regards drinking water. Programmes for nitrates and discharges of dangerous substances need to be finalised and adopted. Permits for discharges need to be reviewed and issued by accession. As regards urban waste water and drinking water, transitional arrangements until 31 December 2015, with intermediate targets, have been agreed.

In the field of **nature protection**, legislation is in place and is in line with the *acquis*, except for implementing legislation which remains to be completed as regards habitats and birds (amendments to the hunting regulations). Administrative capacities are in place and function. Further efforts are needed to finalise the preparation of a list of proposed sites of Community interest and the designation of special protection areas by accession, and to apply the relevant protection measures by accession. Close attention needs to be paid to ensuring proper consultation while avoiding delays.

As regards **industrial pollution and risk management**, legislation is in place and is in line with the *acquis*. Permits need to continue to be issued and complied with for installations subject to the rules on integrated pollution prevention and control (IPPC) according to the *acquis* deadlines (until October 2007). Administrative capacities are in place and function adequately. As regards IPPC, a transitional arrangement until 31 December 2010 has been agreed for certain installations in Latvia.

The legislation concerning **chemicals and genetically modified organisms** (GMOs) has been transposed and is in line with the *acquis*, except for the recent *acquis* on the deliberate release into the environment of GMOs, which needs to be transposed by accession. Administrative capacities are in place and function, but as regards GMOs there appears to be a shortage of resources. Authorisation procedures for biocides need to be established, a competent authority designated and a notification procedure for GMOs set up by accession. Co-ordination between the organisations involved needs to continue to be enhanced.

Transposition of the *acquis* on **noise** is proceeding according to schedule and the legislation is in line with the *acquis*, except for the recent *acquis* on ambient noise, which needs to be completed at the latest by July 2004 in line with the Directive. Testing and notified bodies need to be approved.

On **nuclear safety and radiation protection**, legislative alignment has been completed and is in line with the *acquis*. Administrative capacities in this area are in place and function adequately. As regards medical exposure, a transitional arrangement until 31 December 2005 has been agreed.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the *acquis* in all areas of **environment** policy by accession. Latvia needs to finalise the legal alignment as regards the following areas: horizontal legislation, air quality, waste management, water quality, nature protection, genetically modified organisms and noise. It needs to complete air quality plans and programmes. Moreover, Latvia must pay particular attention to implementation in the water sector, especially as regards drinking water quality, complete authorisations for discharges of dangerous substances, and finalise the necessary programmes. Administrative capacity for waste management, especially at regional environmental boards, requires particular attention, including hazardous waste

management. The establishment of waste collection systems and recovery and disposal facilities needs to continue. In addition, Latvia must make further efforts to finalise its lists of proposed nature protection sites and special bird protection areas. In this context, close attention needs to be paid to ensuring proper consultation while avoiding delays. On industrial pollution, permits for IPPC installations need to be issued and complied with according to *acquis* deadlines. Authorisation procedures for biocides need to be established.

### ***Chapter 23: Consumer and health protection***

The *acquis* covers protection of the economic interests of consumers (concerning misleading and comparative advertisement, price indication, consumer credit, unfair contract terms, distance and doorstep selling, package travel, timeshare, injunctions for the protection of consumers' interests, and certain aspects of the sale of consumer goods and associated guarantees) as well as the general safety of goods (liability for defective products, dangerous imitations and general product safety). Recently adopted legislation includes rules on general product safety and distance marketing of consumer financial services. The acceding countries need to effectively enforce the *acquis* through appropriate judicial and administrative systems, including market surveillance and a role for consumer organisations.

With regard to **safety-related measures**, Latvian legislation is in line with the *acquis* with the exception of the revised directive on general product safety, which still has to be transposed. The administrative structures are in place, but need to be strengthened in terms of both financial and human resources. **Market surveillance** relating to general product safety is partly developed. Latvia has created the relevant policy and management structures. However, a market surveillance information system still needs to be promoted. Moreover, the capacity of the main bodies in charge of market surveillance activities needs to be further developed and their co-ordination improved. These structures need also to be strengthened in terms of both financial and human resources. The capability for testing the safety of consumer products falling under the scope of the general product safety directive could be improved.

As regards **non-safety related measures**, Latvia has transposed the legislation although the alignment with the *acquis*, in particular regarding consumer credit remains to be confirmed. Enforcement activities relating to the protection of the economic interests of consumers are partly developed. The administrative structures in terms of both financial and human resources need to be further developed and strengthened, also with regard to arbitration bodies, which play an important role in solving consumer cases.

With regard to **consumer organisations**, their role needs to be further promoted in order to allow them to provide a more effective input into the development and implementation of consumer policy. Consumer organisations should also be more actively involved in developing consumer product safety standards. Consumer information and education need to be further promoted. Consumers and businesses in Latvia also need to be made more aware of their rights and responsibilities.

### ***Conclusion***

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **safety-related legislation** and **consumer**

**organisations** and is expected to be in a position to implement this *acquis* as from accession. Latvia needs to complete alignment of the *acquis* of the revised general product safety directive.

Latvia is meeting the majority of the requirements for membership in the area of **market surveillance** and **non-safety related measures**. In order to complete preparations for membership, Latvia needs to improve market surveillance to ensure the proper enforcement of legislation on safety and non-safety related measures including by strengthening the administrative capacity and structures. Latvia should also complete alignment in the non-safety-related area.

### ***Chapter 24: Justice and home affairs***

The most developed part of this chapter is the Schengen *acquis*, which entails the lifting of internal border controls. However, much of this *acquis* will not apply to the acceding countries upon accession, but only after a later separate Council Decision. The Schengen Implementation Action Plan aims at preparing this on the basis of a credible schedule for the introduction of the Schengen provisions. Binding rules which must be put in place as from accession include part of the rules on visas, rules on external borders and the *acquis* on migration, asylum, police co-operation, combating organised crime, fight against terrorism, fraud and corruption and drugs, customs co-operation as well as human rights legal instruments. On issues such as border control, illegal migration, drugs trafficking and money laundering, organised crime, police and judicial co-operation, data protection and the mutual recognition of court judgements, acceding countries need to be equipped to meet adequate standards of administrative capacity. The establishment of an independent, reliable and efficient judiciary and police organisation are also of paramount importance.

Preparation with regard to Schengen provisions (**Schengen Action Plan**) relevant to accession is still satisfactory, but efforts will be needed after accession to prepare for the lifting of internal borders and full implementation of the Schengen *acquis* on the basis of a further decision to be taken by the Council. The separation of traffic at air- and seaports should be subject to further monitoring. The preparation for integration into the Schengen Information System (SIS) II is still at a preliminary stage, in terms of the development of national applications. The establishment of an SIS and SIRENE bureau as well as the development of the necessary information technology infrastructure and national registers continue according to set timetables.

In the field of **data protection**, Latvia needs to complete its legislative alignment to ensure full institutional autonomy and further strengthen the independence of the supervisory authority. The responsible body, the Data State Inspectorate, started its operations in 2001 and has been strengthened through increased resources. However, inter-agency co-operation should be further enhanced.

Latvia has continued to advance on **visa policy** and its legislation is broadly in line with the EU visa *acquis*. Latvia has aligned with the *acquis* regarding countries with EU visa obligations. However, Latvia still has to align its policy with the *acquis* as regards EU visa-free travel arrangements in relation to 18 countries. Regarding visa issuing procedures, Latvia is largely in line with the *acquis*, but some implementation legislation remains to be adopted. As regards implementation and administrative capacity, a national visa register has been established and the Unified Visa Info System, including databases

for invitations and entry prohibitions, is operational on-line at all embassies, consulates and border control points. Efforts are still needed to continue improvements in infrastructure, recruitment of staff and training. At all diplomatic and consular missions, the technical and human resource capacity to detect forged and falsified documents should continue to be strengthened.

As regards the management of the future **external borders**, Latvia has in general aligned its legislation on border control and border surveillance. Negotiations on border co-operation agreements with neighbouring countries are ongoing with the Russian Federation. The border crossing agreement with Belarus entered into force in January 2003, but demarcation works need to be done on the Belarus side. There is no progress on the conclusion of a demarcation agreement with Russia. Implementation of Latvia's Integrated Border Management Strategy and the relevant parts of its Schengen Action Plan are ongoing. The recruitment of staff and the allocation of sufficient financial means to fully implement both plans remain important. However, particular attention is needed to enhance inter-institutional co-operation, to define the necessary implementation structures, to draft co-operation instructions, notably between customs and border guards and to ensure implementation of inter-agency agreements. Latvia is in the process of upgrading its equipment for border surveillance, including sea borders and the construction and renovation of border posts at Latvia's eastern border. However, continued attention is needed regarding the development of its infrastructure and the putting into place of the necessary equipment.

In the area of **migration**, legislative alignment has been completed, except with regard to carrier liability. Latvia has taken action to conclude readmission agreements, and is encouraged to sign and ratify outstanding agreements with Member States, candidate countries, and third countries including Belarus and the Russian Federation. Administrative structures are essentially in place, but require further strengthening, including the provision of adequate financial resources. An area of particular concern is the need to improve detention conditions at the Olaine Centre for illegal migration. Urgent priority should be given to the implementation of the reconstruction project for the improvement of conditions at the Olaine Centre and to ensure the allocation of sufficient financial resources. This project should also include a review of detention procedures.

In the field of **asylum**, Latvia's legislation is broadly aligned with the *acquis*. Attention needs to be paid to completing alignment with regard to the implementing regulations of the Asylum Law in the area of appeals under accelerated procedures, exclusion and cessation grounds and minimum guarantees for asylum procedures ("non-refoulement"). Latvia should also implement outstanding amendments to the Asylum Law necessary for full alignment with the Dublin Regulation, particularly regarding procedures for considering applications between Member States. In order to ensure adequate implementation, the administrative capacity of the Office for Citizenship and Migration Affairs and the related bodies concerned, should be further improved, including through training. Elaboration of strategies and instructions for internal co-operation in dealing with applications also remain important. Latvia should also accelerate its analytical and organisational measures for active participation in EURODAC. Preparations for the establishment of National Access Points for Dublinet and EURODAC need to be accelerated urgently and the necessary resources provided in order to ensure implementation by accession.

In the area of **police co-operation and combating organised crime**, efforts are still required to ensure that Latvia has an accountable, reliable and fully co-ordinated police organisation by accession. Continued attention is needed to improve co-operation and co-ordination between the police and the prosecuting and judicial bodies. Information sharing and the development of joint analytical capabilities, particularly in the field of combating economic and organised crime, need to be considerably improved and sufficient means allocated. International co-operation is being established and supported by co-operation agreements, however, the liaison officer post in Moscow is currently vacant and should be filled. The signing of an agreement with Europol is still pending. Once signed, attention should be paid to the timely preparation of national procedures in order to ensure the swift ratification of the Europol Convention upon accession to the EU. Some legislative measures are still necessary to ratify the Protocol against trafficking of persons of the UN Convention against transnational organised crime. The Protocol against the Illicit Manufacturing of and Trafficking in Firearms, their Parts, Components and Ammunition has not yet been signed. While the state police (criminal police and Drug Enforcement Bureau) was reorganised, salaries increased and equipment provided, further strengthening is necessary, particularly in order to improve the state police analytical capacity and to fight IT crime, money laundering, smuggling and other forms of serious crime. Training should be further developed covering specific skills, such as surveillance, high-tech crime and financial investigations as well as general courses on investigative techniques. Inter-agency co-operation needs to be enhanced further, in particular between such bodies as the economic police, financial police, the Financial Intelligence Unit, the Corruption Prevention and Combating Bureau, customs and border guards.

In the **fight against terrorism**, Latvia has ratified the most important Conventions in this area, in particular the 1999 International Convention for the Suppression of the Financing of Terrorism. Latvia should accelerate its preparatory efforts in order to accede to the Convention on Mutual Assistance in Criminal Matters between the EU Member States (2000) upon accession.

As regards the **fight against fraud and corruption**, Latvia's legislation is largely aligned with the *acquis*. Further amendments are necessary for full alignment with the 1995 Convention on the Protection of the European Communities' Financial Interest and its Protocols. The respective amendments to the Criminal Law and the Law on Prevention of Laundering of Proceeds Derived from Criminal Activity are still pending. Full alignment with the Council Framework Decisions on the protection of the euro against counterfeiting should be ensured. Latvia has yet to designate a National Central Office, dealing notably with banknote and coin analysis. Latvia should implement the anti-corruption strategy, including the fight against high-level corruption, but still needs to develop stable management and it should continue to increase its staffing and needs to develop its investigation capabilities. The National Corruption Prevention Programme needs to be adopted, particularly in order to clarify the tasks and responsibilities of the relevant institutions. As regards corruption, see also *Section C.1. — Administrative and judicial capacity*.

On the **fight against drugs**, Latvia has completed its legislative measures and has established a National Strategy, but the action plan regarding the Latvian Drug Control and Drug Abuse Strategy still needs to be elaborated and adopted. Further improvements in implementation are required, including establishing the necessary administrative capacity and the allocation of sufficient financial resources. The Drug Enforcement



Bureau has been integrated into the Organised Crime Enforcement Department of the state police, with the aim of reinforcing the relatively weak institutional framework for drug co-ordination and recognising the link between drug trafficking and organised crime. The infrastructure of the National Focal Point for future co-operation with the European Monitoring Centre for Drugs and Drug Addiction needs to be strengthened, legally and financially. The lack of drug seizures at the borders remains a critical area of concern, and greater targeting of drug trafficking by customs and border guards is required together with the allocation of increased resources. Inter-agency co-operation and co-ordination, especially between customs, border guards and state police needs to be strengthened and the necessary regulations implemented.

Latvia needs to complete its legislative alignment with the *acquis* on **money laundering** regarding reporting of suspicious transactions. A Financial Intelligence Unit is in place, but training on money laundering issues for judges and public prosecutors as well as reporting institutions and bodies should continue (*see also Chapter 4 – Free movement of capital*).

With regard to **customs co-operation**, Latvia is in the process of aligning its legislation. Inter-agency co-operation is provided for as well as co-operation with businesses on the basis of memoranda of understanding. However, inter-agency co-operation needs to be further improved, partly through new legislation. Implementation of the training strategy regarding controlled deliveries, drug searches, cross-border surveillance, hot pursuit and joint investigation teams should continue. Efforts should also continue to establish the Customs Information System by accession.

In the area of **judicial co-operation in civil and criminal matters** legislative alignment is ongoing and Latvia should be ready by accession to accede and apply the relevant instruments. Particular attention should be paid to alignment with the Council Framework Decision of 13 June 2002 on the European arrest warrant and the surrender procedure between Member States. Administrative structures for direct contacts between competent judicial authorities are in place, but need to be further strengthened. Further training on judicial co-operation should be provided to judges and other relevant staff, as part of a more systematic long-term training strategy.

As regards the *reform of the judiciary* in general, a detailed analysis is provided in *Section C.1. – Administrative and judicial capacity*.

All the **human rights legal instruments** under the justice and home affairs *acquis* have been ratified by Latvia.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement by accession the *acquis* in the areas of the **Schengen Action Plan, visa policy, external borders, police co-operation and combating organised crime, the fight against money laundering, and terrorism, customs co-operation, judicial co-operation in civil and criminal and human rights legal instruments.**

Latvia is partially meeting the commitments and requirements for membership in relation to **data protection, migration, asylum, the fight against fraud and corruption and drugs.** In order to complete preparations for accession, Latvia needs to adopt and

implement the necessary legislation. Overall, inter-agency co-operation needs to be improved and co-ordination structures to be strengthened. Particular attention must be given to the technical and organisational preparations necessary to implement EURODAC and Dublin II, including sufficient budget.

### ***Chapter 25: Customs Union***

The Customs Union *acquis* consists almost exclusively of legislation which is directly binding on the Member States and does not require transposition into national law. It includes the Community's Customs Code and its implementing provisions; the Combined Nomenclature, Common Customs Tariff and provisions on tariff classification, customs duty reliefs, duty suspensions and certain tariff quotas; and other provisions such as those on customs control of counterfeit and pirated goods, drugs precursors and cultural goods and on mutual administrative assistance in customs matters as well as Community agreements in the areas concerned, including transit. Member States must ensure that the necessary enforcement capacities, including links to the relevant EC computerised customs systems, are in place.

Latvia's **customs legislation** is largely aligned with the *acquis* up to 2001. Implementation of the remaining provisions will take place upon accession, when the EC customs legislation becomes directly applicable. National provisions superseded by the *acquis* are to be repealed at the time of accession and agreements on mutual administrative assistance in customs matters are to be amended as necessary.

Concerning **administrative and operational capacity**, a functioning customs administration is in place; however, serious concerns exist as regards the possibility for Latvia of completing computerisation requirements by the time of accession. The Latvian authorities should pay particular attention to the further restructuring and streamlining of the territorial customs organisation and should implement their plans for reorganisation as a result of accession, when the volume of customs work decreases owing to the conversion of external to internal trade. The customs authorities should continue to co-operate with other enforcement bodies as well as with partners in the Member States.

Preparation for the application of measures and provisions that will be introduced only at the time of accession should be continued, in particular by means of further training. To avoid problems in the enlarged Community, progress is still urgently required in the IT area, to implement the Customs IT strategy within the deadlines set. Currently, the number of staff in the business and IT teams is still too limited, despite successful efforts to create a quality management team. Qualified staff from the regional customs offices must be dedicated to the interconnectivity projects, particularly in setting up business rules, for testing periods, and for deployment training. The fully deployed computerised entry-processing system has yet to be upgraded to an EC-compatible version, in particular to link it, at the very least, to the Master tariff system by the date of accession. Latvia must urgently accelerate the setting up of the computerised transit system, where delays have occurred, in order to be able to meet its commitments as a Member State. In particular, no slippage to the current planning must occur as regards the procurement of equipment for the national transit offices.

## *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **customs legislation**.

Concerning **operational and administrative capacity**, serious concerns remain in the area of computerisation and interconnectivity, where significant delays endanger the correct operation of the transit system, with effects for the entire Community as well as partner countries in the Common Transit System. The Latvian authorities must take urgent action to ensure the necessary transfer of knowledge and experience by the time of accession to enable them to avoid disrupting the operation of the customs union. The computerised transit system must be made operational, including connection to traders, in time for accession. The number of specialised staff must be increased significantly, particularly for a short-term period of testing and deployment training. The existing computerised entry-processing system must be upgraded to an EC-compatible version that can be linked at least to the Master tariff system by the date of accession. Unless immediate remedial action is taken, Latvia will not meet the requirements for membership in this area and there is a serious risk of disruption of the smooth operation of Community systems at the time of accession.

## ***Chapter 26: External relations***

The main element in this chapter, the common commercial policy, is made up of directly binding EU legislation which does not require transposition into national law. The acceding countries were requested to align before accession with the *acquis* on dual-use goods and, where applicable, export credits. Acceding countries committed themselves to ensure compatibility with the *acquis* of their bilateral agreements with third countries. In the area of humanitarian aid and development policy, countries need to ensure the capacity to participate in the EC's development and humanitarian policies.

The administrative structures for dealing with the issues related to the **common commercial policy** are in place and sufficient.

Latvia has co-ordinated its positions and policies with the Commission with regard to the Doha Development Agenda. Latvia should continue close co-ordination and co-operation with the Commission, mainly in order to carry on preparing the convergence of its GATS commitments and Most Favoured Nation exemptions into the EU ones (consolidation EU 25), to be finalised upon accession. Latvia has used its third stage of integration to further align its list of integrated products under the Agreement on Textiles and Clothing with the Community, although some discrepancies remain.

On trade in dual-use goods, Latvia has reached a high degree of alignment with the *acquis*. However, further alignment, in particular regarding the list of dual-use items, needs to be achieved, as export control regimes continue to adopt decisions, which the EU integrates into its legislation. Membership in all export control regimes is a crucial factor enabling implementation of export controls by Latvia. Based on the Thessaloniki Action Plan to support the acceding countries' membership in export control regimes, the EU supports Latvia's accession to the regimes to which it has already applied but is not yet a member. Full alignment as regards the Community general export authorisation can only take place upon accession.

Currently Latvia does not provide medium and long term export credits; should it start doing so, requirements of the *acquis* will need to be strictly followed. Administrative structures are in place and satisfactory

Latvia needs to confirm that all **bilateral agreements with third countries** which it wishes to maintain after accession are compatible with its EC obligations and take further steps to terminate or renegotiate those international agreements that are found to be incompatible with the *acquis*. Following the successful signature of the Memorandum of Understanding regarding the bilateral investment treaty (BIT) between Latvia and the USA, Latvia must ensure swift ratification of the Additional Protocols to the BIT, which were also signed with the US, in order for the adaptations to enter into force by the date of its accession to the EU. Among other agreements, the Foreign Investment Protection Agreement with Canada also needs to be brought into conformity with the *acquis*.

In the area of **humanitarian aid and development policy**, Latvia has to pursue the shaping of a development policy in line with EU principles, in particular with regard to the guidelines laid down by the OECD Development Assistance Committee as well as the commitments and objectives that Latvia has approved in the context of the UN and other international organisations. Administrative structures are in place and satisfactory, although they have not yet been involved in humanitarian aid measures.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement the *acquis* on the **common commercial policy** and **humanitarian aid and development policy**.

Latvia is meeting the majority of the commitments and requirements for membership in relation to **bilateral agreements with third countries**. In order to complete preparations in this area, Latvia must take decisive steps towards renegotiating or terminating its bilateral agreements to make sure that they are compatible with the *acquis* upon accession.

### *Chapter 27: Common foreign and security policy*

The *acquis* related to the common foreign and security policy (CFSP) is essentially based either on legally binding international agreements or on political agreements to conduct political dialogue in the framework of CFSP, to align with EU statements, and to apply sanctions and restrictive measures where required.

Latvia has the required administrative capacity to participate in the **political dialogue**.

However, with regard to alignment with **EU sanctions and restrictive measures, statements, declarations and démarches**, Latvia still needs to adjust its legislation in relation to the introduction and withdrawal of economic sanctions including freezing of assets to enforce EU restrictive measures. The administrative structures required in this area in Latvia are essentially in place and satisfactory.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter on the **common foreign and security policy**, and is

expected to be able to participate in the political dialogue and to align with EU statements, sanctions and restrictive measures by accession. Legislation on economic sanctions still needs to be adopted.

### ***Chapter 28: Financial control***

The *acquis* under this chapter consists mostly of general, internationally agreed and EU-compliant principles of public internal financial control that need to be transposed into the control and audit systems of the entire public sector. In particular, the *acquis* requires the existence of adequate *ex ante* financial control and functionally independent internal audit systems; an independent external audit of the public internal financial control systems in the public sector; an appropriate financial control mechanism for EU pre-accession funding and future structural action expenditure; and arrangements on the protection of EC financial interests. In addition, an anti-fraud co-ordination service, capable of co-operating with the Commission's Anti-fraud Office OLAF at an operational level, is to be designated.

In the area of **public internal financial control**, Latvia has put the framework legislation in place, in line with the *acquis*. Implementing legislation has to be brought into line with the framework legislation. A Code of Ethics for auditors remains to be adopted. The establishment of all public internal financial control -related organisational structures (Central Harmonisation Unit and internal audit capabilities) has been completed. The newly set-up internal audit units are staffed with well-trained and experienced personnel, while a continuous training programme for internal auditors has been developed and is well on track.

In the field of **external audit**, framework legislation has been adopted and is in line with the *acquis*. Implementing legislation has only been partially adopted, as the State Audit Office (SAO) needs to continue to incorporate international audit standards into its current work. The financial independence of the SAO is only partially ensured. Budget proposals should be presented directly to Parliament to further improve financial independence.

As regards **control over structural action expenditure**, framework and implementing legislation in Latvia have only partially been adopted. Internal audit units have been established in all ISPA bodies, but audit trails for EC funds and mechanisms for rapid recovery of lost EC funds remain to be further developed. The necessary administrative capacity to manage the pre-accession and future structural funds remains to be substantially reinforced in order to fully meet the requirements for financial control and internal audit. In particular, recruitment of additional staff for the pre-accession funds, and for the Structural and Cohesion Funds, should be reinforced and accompanied by training measures. Latvia needs to accelerate efforts to implement the extended decentralised implementation system (EDIS) for ISPA and PHARE.

In the area of the **protection of EC financial interests**, Latvia needs to develop further the framework and implementing legislation, in particular with a view to defining the powers of the anti-fraud co-ordination service (AFCOS). In 2002, Latvia designated the Ministry of Finance's Internal Audit Co-ordination and Methodology Division as the Latvian AFCOS, but the definitive location of the AFCOS and its competencies and relations with other relevant institutions and bodies need to be clarified. The necessary

administrative capacity to implement effective co-operation with OLAF through the anti-fraud co-ordinating service needs to be ensured.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from accession negotiations in the area of **public internal financial control** and is expected to be in a position to implement the *acquis* in this field from accession. In the area of public internal financial control, attention should be given to bringing implementing legislation in line with the legal framework and to adopting a harmonised Code of Ethics.

Latvia is meeting the majority of the commitments and requirements arising from accession negotiations in the area of **external audit, control over structural action expenditure and protection of EC financial interests**. Preparations need to be speeded up to complete implementing legislation for external audit and to implement international auditing standards. The independence and operational capacity of the State Audit Office need to be further improved. Urgent attention must also be paid to completing framework and implementing legislation and to substantially reinforcing the administrative structures and capacity in the area of control over structural action expenditure. Considerably enhanced efforts must also be made to complete the extended decentralised implementation system before accession. In the field of protection of EC financial interests, legislation needs to be further aligned with the *acquis*. A definitive decision on the location and competencies of the anti-fraud co-ordinating service is required, and the necessary administrative capacity needs to be put in place.

### *Chapter 29: Financial and budgetary provisions*

Chapter 29 covers the rules concerning the financial resources necessary for the funding of the EC budget ('own resources'). These own resources are made up mainly from contributions from Member States based on 1) traditional own resources from customs and agricultural duties and sugar levies, 2) a resource based on VAT and 3) a resource based on the level of gross national income (GNI). Member States must ensure the creation of appropriate administrative capacity to adequately co-ordinate and ensure the correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules.

As regards the **traditional own resources (TOR)**, a national reporting system on cases of fraud and irregularity has been established in Latvia, but the system remains to be tailored to the Commission's reporting system OWNRES. For the administration of sugar levies a working group has been set up and responsibilities defined, but the final organisation and procedure are still to be formalised. For A and B accounts, the final procedures and systems to prepare these accounts in line with the EC system are not yet established. IT developments and other improvements in the field of customs clearance and accounting as well as the reliability of data transmission between various systems remain necessary. It should be noted that any delays in fully and accurately applying EC customs rules will impact on the accuracy of TOR calculations.

Considerable efforts are required by Latvia for the correct calculation of the **VAT-based resource**, in particular concerning the calculation of the weighted average rate in accordance with ESA95.

For the calculation of the **GNI resource**, analysis and improvement of calculation methods in different fields of national accounts are under way, but continued efforts are needed by Latvia to further improve the quality and reliability of the national accounts and GNI calculations in line with ESA95, including their exhaustiveness.

With the establishment of a permanent own resources system co-ordination unit in the Ministry of Finance in April 2003, all institutions necessary for application of the own resources system in Latvia exist.

### *Conclusion*

Latvia is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **financial and budgetary provisions**, and is expected to be in a position by accession to implement the relevant *acquis*. Latvia should now focus attention on further improving the calculation of the VAT-based resource and the reliability of GNI statistics, completing the procedures and systems for the A and B accounts and the procedures for sugar levies, and finalising procedures for sending reports on cases of fraud and irregularity to the Commission through the OWNRES system.

## D. CONCLUSION

Economic activity has remained firm despite a weak external environment. The economic reform path has been sustained.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. Positive developments have taken place as regards active labour market policies, but several structural rigidities remain. Fiscal policy turned into a more expansionary phase in 2002. Overall, appropriate conditions to attract foreign investment have been established, but the environment for the creation of new enterprises remains somewhat problematic. Some progress has been made in improving administrative and judicial capacity as regards to the business community.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Latvian public administration and judiciary, but there is room for further improvements. In the field of public administration, it is important to harmonise the civil service management structure on the basis of transparent rules and practices in staff matters, and to reinforce accountability of public agencies. Particular attention needs to be paid to the reform of the judiciary, and in particular the completion of the legislative framework, especially the urgent need to adopt the new Law on Judicial Power, as well as the Law on Criminal Procedure, and to the implementation of legislation on Court administration. The fight against corruption should continue to receive high priority. In particular, further efforts are needed to complete the legislative basis and to consolidate the new Anti-Corruption Bureau.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Latvia has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession : horizontal and procedural measures, new approach legislation in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; the banking sector in the area of *freedom to provide services*; payment systems and the fight against money laundering related to the *free movement of capital*; *company law* and accounting; and state aid rules in *competition policy*. In the area of *agriculture*, Latvia is expected to be in a position by accession to implement the *acquis* in some horizontal areas, in most common market organisations, in rural development, and in some veterinary issues, notably zootechnics and animal nutrition; and in *fisheries*, in the areas of structural actions, state aid and international agreements.

Latvia is also expected to be in a position to implement the *acquis* by accession in : most areas of the *transport* sector; excise duties and direct *taxation*; *economic and monetary union*; *statistics*; most areas of *social policy and employment*; most areas in the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; *culture and audio-visual policy*; programming in relation to *regional policy and co-ordination of structural instruments*; the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; most aspects of *justice and home affairs*; *customs* legislation; the common commercial policy, humanitarian aid and development policy in the *external relations*



*acquis*; *common foreign and security policy*; public internal *financial control*; and *financial and budgetary provisions*.

Secondly, in certain areas Latvia partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation on the *free movement of goods*, as well as public procurement and the non-harmonised area; in the area of *free movement of services*, the fields of insurance, investment services and securities markets, the protection of personal data and information society services, and the right of establishment and the freedom to provide non-financial services; in the fields of *free movement of capital*, the remaining restrictions regarding capital movements and payments; within the area of *company law*, the protection of intellectual and industrial property rights; and anti-trust rules in *competition policy*. In the *agriculture* area it concerns the Paying Agency, the Integrated Administration and Control System and trade mechanisms, the common market organisations for milk, sugar and beefmeat, the veterinary control system, public health in agri-food establishments, trade in live animals and animal products, animal disease control, common measures including residues, animal welfare and phytosanitary issues; and resource and fleet management and inspection and control, and market policy in the *fisheries* area.

This also includes the fields of: air *transport*; VAT, including administrative capacity, in *taxation*; public health, the European Social Fund, and anti-discrimination in the area of *social policy and employment*; competitiveness and the internal *energy* market; *telecommunications and information technologies*, including the postal services sector; legislative framework, financial management and control as well as institutional structures regarding *regional policy and co-ordination of structural instruments*; market surveillance and non-safety measures in the area of *consumer and health protection*; data protection, migration, asylum, the fight against fraud and corruption, and drugs in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries; and external audit, control over structural action expenditure and the protection of EC financial interests in the area of *financial control*.

Thirdly, Latvia must take immediate and decisive action to address four issues of **serious concern** in four chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *free movement of persons*, relating to Latvia's preparations for the general system of mutual recognition of qualifications and the mutual recognition and training for certain professions, including in the healthcare sector. It also concerns the field of *agriculture*, regarding the area of TSE (transmissible spongiform encephalopathies) and animal by-products. It concerns *taxation* as regards administrative co-operation and mutual assistance in the field of VAT, in particular the interconnectivity system. Finally, it concerns administrative and operational capacity in the *customs union* area, as regards certain information technology systems.

## STATISTICAL ANNEX

	1998	1999	2000	2001	2002
<b>Basic data</b>	<b>in 1000</b>				
Population (average) a)	2,410	2,390	2,373	2,355	2,339
	<b>in km<sup>2</sup></b>				
Total area	64,589	64,589	64,589	64,589	64,589

<b>National accounts</b>	<b>1000 Mio Lats</b>				
Gross domestic product at current prices	3.6	3.9	4.3	4.8	5.2
	<b>1000 Mio ECU/euro</b>				
Gross domestic product at current prices	5.4	6.2	7.8	8.6	8.9
	<b>in ECU/Euro</b>				
Gross domestic product per capita b) at current prices	2,300	2,600	3,300	3,700	3,800
	<b>% change over the previous year</b>				
Gross domestic product at constant prices (nat. currency)	4.8	2.8	6.8	7.9	6.1
Employment growth	-0.3	-1.8	-2.9	2.2	2.7
Labour productivity growth	5.0	4.7	10.1	5.6	3.3
Unit labour cost growth	-3.6	-2.5	-7.2	-1.8	-0.4
	<b>in Purchasing Power Standards</b>				
Gross domestic product per capita b) at current prices	5,600	6,100	7,000	7,800	8,500
	<b>in % of EU-15 average</b>				
GDP per capita b) at current prices in PPS	28	28	31	34	35
Labour productivity (GDP per person employed in PPS)	29	31	34	37	37
Structure of production	<b>% of Gross Value Added c)</b>				
- Agriculture	4.4	4.3	4.9	4.8	4.7
- Industry (excluding construction)	23.4	19.9	18.6	18.7	18.6
- Construction	6.9	7.1	6.7	6.1	6.1
- Services	65.4	68.6	69.8	70.3	70.6
Structure of expenditure	<b>as % of Gross Domestic Product</b>				
- Final consumption expenditure	85.9	83.4	81.7	81.4	82.2
- household and NPISH	64.5	62.9	61.9	62.1	62.7
- general government	21.4	20.5	19.7	19.3	19.4
- Gross fixed capital formation	27.3	25.2	26.5	27.0	26.4
- Stock variation d)	0.4	1.7	0.5	2.8	2.1
- Exports of goods and services	51.3	43.9	45.6	44.4	45.5
- Imports of goods and services	64.8	54.2	54.3	55.6	56.1

<b>Inflation rate</b>	<b>% change over the previous year</b>				
Consumer price index	4.3	2.1	2.6	2.5	2.0

	1998	1999	2000	2001	2002
<b>Balance of payments</b>	<b>in Mio ECU/euro</b>				
-Current account	-576	-599	-538	-825	-697 e)
-Trade balance	-1,007	-956	-1,152	-1,516	:
<i>Exports of goods</i>	1,798	1,772	2,232	2,485	:
<i>Imports of goods</i>	2,805	2,729	3,384	4,001	:
-Net services	271	314	479	557	:
-Net income	48	-44	28	49	:
-Net current transfers	111	87	106	88	:
<i>- of which: government transfers</i>	73	57	39	27	:
- FDI (net) inflows	318	352	445	198	410 e)

<b>Public finance</b>	<b>in % of Gross Domestic Product</b>				
General government deficit/surplus	-0.7	-5.3	-2.7	-1.6	-3.0p
General government debt	10.6	13.7	13.9	15.7	15.2p

<b>Financial indicators</b>	<b>in % of Gross Domestic Product</b>				
Gross foreign debt of the whole economy	14.6	20.9	39.9	46.4	:
	<b>as % of exports</b>				
Gross foreign debt of the whole economy	28.4	47.5	87.5	104.3	:
Monetary aggregates	<b>1000 Mio ECU/euro</b>				
- M1	0.9	1.0	1.3	1.5	1.7
- M2	1.0	1.2	1.5	1.9	2.2
- M3	1.4	1.7	2.2	2.8	3.0
Total credit	1.1	1.5	2.0	2.9	3.5
Average short-term interest rates	<b>% per annum</b>				
- Day-to-day money rate	4.4	4.8	3.0	5.2	3.0
- Lending rate	12.9	13.1	10.2	10.2	8.3
- Deposit rate	7.3	6.7	7.4	6.9	5.7
ECU/EUR exchange rates	<b>(1ECU/euro=..Lats)</b>				
- Average of period	0.660	0.626	0.559	0.560	0.581
- End of period	0.665	0.588	0.576	0.556	0.614
	<b>1993=100</b>				
- Effective exchange rate index	203.8	287.7	316.3	316.5	309.2
Reserve assets	<b>Mio ECU/euro</b>				
-Reserve assets (including gold)	687	907	987	1,381	1,263
-Reserve assets (excluding gold)	624	836	915	1,304	1,184

<b>External trade d)</b>	<b>Mio ECU/euro</b>				
Trade balance	-1,230	-1,144	-1,435	-1,688	-1,873
Exports	1,619	1,612	2,023	2,243	2,425
Imports	2,849	2,756	3,458	3,931	4,298
	<b>previous year=100</b>				
Terms of trade	101.9	101.8	92.5	100.9	97.1
	<b>as % of total</b>				
Exports with EU-15	56.6	62.5	64.6	61.2	60.4
Imports with EU-15	55.3	54.5	52.4	52.6	53.0

	1998	1999	2000	2001	2002
<b>Demography</b>	<b>per 1000 of population</b>				
Natural growth rate	-6.6	-5.6	-5.1	-5.7	-5.3
Net migration rate (including corrections)	-2.4	-1.7	-2.3	-2.2	-0.8
	<b>per 1000 live-births</b>				
Infant mortality rate	15.0	11.3	10.4	11.0	9.8
Life expectancy :	<b>at birth</b>				
Males:	64.1	64.9	64.9	65.2	65.5p
Females:	75.5	76.2	76.0	76.6	77.0p

<b>Labour market (Labour Force Survey)</b>	<b>% of population</b>				
Economic activity rate (15-64)	70.1	68.4	67.1	68.0	69.8
Employment rate (15-64), total	59.9	58.8	57.5	58.6	60.4
Employment rate (15-64), males	65.1	64.1	61.5	61.9	64.3
Employment rate (15-64), females	55.1	53.9	53.8	55.7	56.8
	<b>as % of the total population of the same age group</b>				
Employment rate of older workers (55-64)	36.3	36.6	36.0	36.9	41.7
Average employment by NACE branches	<b>in % of total</b>				
- Agriculture and forestry	19.0	17.5	14.9	15.1	15.3
- Industry (excluding construction)	21.5	19.7	20.8	19.6	19.3
- Construction	5.5	6.1	6.0	6.7	6.2
- Services	53.9	56.8	58.3	58.6	59.1
	<b>% of labour force</b>				
Unemployment rate, total	14.3	14.0	13.7	12.8	12.8
Unemployment rate, males	15.0	14.3	14.4	14.1	13.7
Unemployment rate, females	13.6	13.6	12.9	11.6	11.8
Unemployment rate of persons < 25 years	27.0	23.5	21.3	22.9	25.6
Long-term unemployment rate	7.8	7.5	8.2	7.4	5.8

<b>Social cohesion</b>	<b>ratio of top quintile to lowest quintile</b>				
Inequality of income distribution	5.4	5.1	5.5	:	:
	<b>% of population aged 18-24</b>				
Early school-leavers	:	:	:	:	19.5
	<b>% of population aged 0-65</b>				
Population in jobless households (persons aged 0-65)	14.5	15.4	15.9	14.0	11.7

<b>Standard of living</b>	<b>per 1000 inhabitants</b>				
Number of cars	201.0	221.0	235.0	250.0	266.0
Main telephone lines	309.0	307.0	311.0	308.0	301.0
Number of subscriptions to cellular mobile services	70.0	117.0	170.0	267.0	393.0

<b>Infrastructure</b>	<b>in km per 1000 km<sup>2</sup></b>				
Railway network	37.4	37.4	37.4	37.4	37.4
	<b>km</b>				
Length of motorways	0	0	0	0	0

	1998	1999	2000	2001	2002
<b>Industry and agriculture</b>	<b>previous year=100</b>				
Industrial production volume indices	103.1	94.6	104.7	109.2	105.8p
Gross agricultural production volume indices (in prices 1993)	92.1	89.4	102.8	106.6	104.1p

<b>Innovation and research</b>	<b>as % of GDP</b>				
Spending on Human Resources (public expenditure on education)	6.07	6.28	5.86	5.90E	:
	<b>as % of GDP</b>				
Gross domestic expenditure on Research & Development	0.45	0.40	0.48	0.44	:
	<b>per 1000 inhabitants</b>				
Level of Internet access - households	:	:	:	2.3	:

<b>Environment</b>	<b>tonnes CO2 equivalent per capita</b>				
Total greenhouse gases emissions	39.0	36.5	34.1	:	:
	<b>kg of oil equivalent per 1000 euro of GDP</b>				
Energy intensity of the economy	817.3	935.0	840.7	:	:
	<b>as % of total electricity consumption</b>				
Share of renewable energy	68.2	45.5	47.7	:	:
	<b>as % of total freight transport</b>				
Modal split of freight transport	24.0	25.4	26.5	27.4	:

p=provisional figures

E=estimated data

- 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) Source: Website of the National Bank

## Methodological Notes

### Inflation rate

For details please refer to the following link to the Eurostat website:  
[http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/ecobac\\_ir.htm](http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/ecobac_ir.htm)

### Finance

*Public finance:* The general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending (EDP B.9) of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value.

### External trade

*Imports and exports (current prices).* The data is based upon the special trade system. Trade Classification: Trade in goods are recorded using the commodity classification according to the Combined Nomenclature. Imports are recorded on CIF basis, exports on FOB basis.

*Imports and exports with EU-15.* Data declared by Latvia.

### Labour market

Indicators are harmonised annual figures with the exception of average employment by NACE branches and unemployment rate of persons < 25 years, which are for the 2<sup>nd</sup> quarter of the respective year. The results are based on the European Union Labour Force Survey (LFS). The EU LFS is conducted on a quarterly basis in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998.

For details please refer to the following link on the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/emploi.htm>

#### Social cohesion

For details please refer to the following link on the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/socohe.htm>

#### 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* are calculated in constant prices on the basis of the previous year. Indices are changed as results of methodology improvement.

#### Innovation and research

For details please refer to the following link to the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/innore.htm>

#### Environment

For details please refer to the following link to the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/enviro.htm>

#### Sources:

Total area, External trade, Demography, Standard of living, Infrastructure, Industry and agriculture:  
National sources. Other indicators: Eurostat.