

Zentrum für Europäische Integrationsforschung
Center for European Integration Studies

Rheinische Friedrich Wilhelms-Universität Bonn



Marcus Wenig (Ed.)

**A Pledge
for an Early Opening of
EU-Accession Negotiations**

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Table of Contents

<i>Marcus Wenig</i> A Pledge for an Early Opening of EU-Accession Negotiations.....	5
<i>Alexandru Ion Herlea</i> Romania's Progress in Preparing for Accession to the European Union.....	13
<i>Stanislav Daskalov</i> Why Should the European Council in Helsinki Invite Bulgaria to Start EU-Accession Negotiations in 2000?.....	25
<i>Ján Figel'</i> Progress of Slovakia since the Regular Report 1998.....	35
<i>Iveta Sulca</i> Latvia on its Way to the EU.....	45
<i>Egidijus Vareikis</i> Lithuanian Readiness to Start Negotiations with the EU.....	51
Contributors.....	57

Marcus Wenig

A Pledge for an Early Opening of EU-Accession Negotiations

Enlarging the European Union is the biggest challenge the Union is facing in the coming years. In December 1997 the European Council meeting in Luxembourg initiated the accession process for ten Central and Eastern European countries and Cyprus. Following the recommendations of the European Commission laid down in its Agenda 2000, the European Council decided to start accession negotiations, in a first step, with Poland, Hungary, the Czech Republic, Estonia, Slovenia and Cyprus in spring 1998. The accession process with all eleven accession countries was solemnly opened within the framework of a conference of the Ministers of Foreign Affairs on 30 March 1998. One day later, formal accession negotiations with the five aforementioned Central and Eastern European countries as well as Cyprus began.

It was also decided at the European Council in Luxembourg that the Commission will make regular reports to the Council reviewing the progress of each candidate country towards accession in the light of the criteria established at the European Council meeting in Copenhagen in 1993. At that meeting it was decided that the countries of Central and Eastern Europe which have concluded Association Agreements, so called "Europe Agreements", and strive for EU-accession, can become EU-members as soon as they are able to assume to the obligations of membership and to fulfil the necessary economic and political conditions. The requirements developed for this, the so-called "Copenhagen criteria", are as follows:

- stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities
- the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union

- the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

In November 1998 the Commission presented its first Regular Report on Progress towards Accession by each of the candidate countries. Having assessed the rate at which each of the candidate countries had adopted the *acquis communautaire*, the Commission decided not to make new recommendations to the Council on the conduct or extension of the negotiations. With the Vienna European Council following the Commission's opinion, the hopes of the five candidate countries in Central and Eastern Europe with which the European Union had not yet started formal negotiations, Bulgaria, Latvia, Lithuania, Romania and Slovakia, were consequently based on the second Regular Report to be presented by mid October 1999. All five countries enhanced their efforts to further adopt the *acquis communautaire* in order to be recommended by the Commission in the second Regular Report for starting negotiations in the year 2000.

The various measures undertaken by the governments of the five candidate countries since November 1998 are illustrated, according to the EU practice, in the order of the countries' applications for EU-membership.

Romania managed to cope with internal turbulence in the form of the miners' strike without departing from the rule of law and democratic values such as the right to strike and demonstrate. Economic difficulties combined with a restructuring of the budget and the decentralisation of responsibilities led to a deterioration of the conditions of children in institutional care in Romania. In its second Regular Report presented on 13 October 1999 the Commission therefore considered that Romania is still fulfilling the Copenhagen political criteria on the assumption that the authorities give priority to solving the crisis in the child care institutions. The government has promised to solve this problem before the mid of December. The Commission took note of the negative impact the Kosovo crisis had on the difficult situation of the Romanian economy. It also acknowledged the progress made in the privatisation of several large companies and in restructuring and privatising the state-owned financial

sector. With regard to the Copenhagen economic criteria, which are the existence of a functioning market economy and the capacity to withstand competitive pressure and market forces within the Union, the Commission concluded that the country does not meet either criterion but that the government is committed to restoring a stable macroeconomic framework and is addressing the structural problems in the economy in order to put the Romanian economy back on the path of sustainable development.

Despite the negative impact of the Kosovo crisis on Bulgaria, in particular the downturn in trade deriving from the disruption of its important transport route through the Danube, the government managed to maintain macroeconomic stability by implementing sound fiscal and incomes policies under the currency board agreement. In its second Regular Report of October 1999 the Commission noted the determined efforts of Bulgaria to put in place the key elements of internal market legislation. The Commission concluded that Bulgaria fulfils the Copenhagen political criteria and, though not meeting the economic criteria and starting from a low point, it continues to make substantial progress in the establishment of a market economy and in developing its capacity to withstand competitive pressure and market forces within the Union. Bulgaria has continued legislative alignment at a steady pace and has made determined efforts to put in place the key elements of internal market legislation. The Report summarises that Bulgaria has made progress in meeting all of the short-term priorities of the Accession Partnership except in the nuclear sector where a realistic timetable for the closure of Units 1-4 at the Kosloduy nuclear power plant has yet to be elaborated. The government promised to look into this question.

Since the Parliamentary elections of September 1998 Slovakia has made remarkable progress in the consolidation of democracy. The municipal elections of December 1998 and the Presidential elections of May 1999 were free and fair, effective opposition participation in parliamentary oversight committees and supervisory boards has been ensured, and a law on the use of minority languages in official communications entered into force in September 1999. The Commission therefore concluded in its second Regular Report that Slovakia now fulfils the Copenhagen political criteria. With regard to the economic criteria, the new economic policy of

the government is showing first results with a reduction in the foreign trade deficit and in the public finance deficit. According to the Commission's Report Slovakia will be able to meet the economic sub-criterion of a functioning market economy in the course of next year and to fulfil the second sub-criterion, the capacity to withstand competitive pressure and market forces within the Union, in the medium term. The decision of the Slovak government to close the Units 1-2VI of the Bohunice reactor by 2006 and 2008 respectively was appreciated by the Commission.

Latvia has made several important improvements to comply with the Copenhagen political criteria. The death penalty has been abolished and the naturalisation procedure improved. The draft of the Language Law has been sent back by the President to the relevant Parliament committees to be reviewed so that it becomes compatible with international standards and the Europe Agreement. The Commission's Report states that Latvia fulfils the Copenhagen political criteria. Despite the negative impact of the Russian crisis, the Latvian government managed to maintain stability in the macroeconomic and financial sector. The inflation rate was kept at a low level and the current account deficit decreased. Prudent stabilisation policies implemented by the Latvian government are showing positive results and the financial and enterprise sectors developed favourably. In its Report the Commission concluded that Latvia should now be regarded as a functioning market economy and that the country should be able to acquire the capacity to withstand competitive pressure and market forces within the Union in the medium term. Latvia also maintained a good pace of legislative approximation.

Lithuania fulfils the Copenhagen political criteria. The country had, due to its historical trade links with Russia, the lowest import and export shares with the EU and was thus strongly affected by the Russian crisis. The shifting of the trade pattern from the East towards the West has led to an increase in the unemployment level and in the current account deficit. Despite the negative impact of the Russian crisis the government managed to preserve macroeconomic stability. The Commission concluded that Lithuania is close to being a functioning market economy and that the country should fulfil this economic sub-criterion in the course of the next

year. It continues that Lithuania is capable of meeting the second economic sub-criterion, which is the capacity to withstand competitive pressure and market forces within the Union, in the medium term provided a sustained implementation of its efforts is carried out. Lithuania has made impressive progress in setting up administrative and judicial structures necessary for the adoption of the *acquis*. Addressing the Commission's demands to close down non-upgradeable nuclear reactors in order to ensure high standards of nuclear safety throughout the European continent, the Lithuanian government, supported by the Parliament, decided to close Unit 1 of the Ignalina nuclear power plant before the year 2005. Regarding Unit 2, a decision on a closure date will be taken following a national energy strategy review in the year 2004 .

Given the fact that all five candidate countries meet the Copenhagen political criteria, but that their record regarding the economic criteria and the other obligations for membership as established by the Copenhagen European Council is quite different, the Commission had to decide between two options: either to recommend the opening of accession negotiations only with those countries that have made significant progress in the preparation for membership to be in a position to satisfy the conditions of membership in the medium term, or to base the recommendation only on the fulfilment of the Copenhagen political criteria. Pursuing the first option would have meant leaving some of the candidate countries still in the waiting room for the opening of negotiations with the possibility of jeopardising the reform process in the countries by disillusioning the population. Opening negotiations with countries that do not yet meet a sufficient level of preparation on the other hand prolongs the negotiating process considerably and creates a precedent for future accessions.

The Commission, combining positive features of both approaches, recommended to the European Council in Helsinki that accession negotiations should be opened in the year 2000 with all five Central and Eastern European countries. However, the opening of negotiations with Romania should be conditional on a sustainable improvement of the childcare system and on the taking of appropriate measures to address the macroeconomic situation which is to be assessed before the start of

negotiations. The opening of negotiations with Bulgaria should be conditional upon a confirmation of significant progress accomplished in the economic reform process and upon the presentation of acceptable closure dates before the end of this year of Units 1-4 of the Kozloduy nuclear power plant. Both countries have taken measures to fulfil these requirements.

As part of its accession strategy the Commission also proposed that the accession negotiations should follow a differentiated approach, allowing each candidate to progress through the negotiations as quickly as is warranted by its own efforts to prepare for accession. The so-called “principle of differentiation” is an important means to give the negotiation process additional impetus as each country will proceed at its own pace, be assessed at its own merits and join when it is finally able to meet all the obligations for membership. The perspective for countries to catch up or overtake other countries could act as an incentive to accelerate reforms.

Since the Luxembourg Summit ZEI commits itself to support the accession process of all candidate countries. Consultation and cooperation under the framework of the ZEI Research Group “EU-Accession” are including continuous discussions with high representatives and joint research with distinguished scholars. ZEI firmly believes in the usefulness of combining profound academic research with applied political consultation work. The Institute links with the governments and high level research institutions in all five candidate countries which are aspiring to start negotiations with the EU. The cooperation has led to profound interactions and useful learning processes on both sides. It is in this spirit that ZEI is presenting the views of distinguished decision makers some of whom are linked with the Institute.

By recommending the European Council in Helsinki on 11 and 12 December 1999 to conclude that accession negotiations should be opened with Bulgaria, Latvia, Lithuania, Romania and Slovakia while simultaneously setting conditions for Romania and Bulgaria particularly in the economic field, the Commission has given the long awaited signal for these countries while underlining the importance of the Copenhagen criteria. It has found the right balance between a

swift but surefooted enlargement process. The Kosovo crisis has clearly demonstrated the necessity to achieve peace and security, democracy and the rule of law, economic growth and prosperity throughout Europe. Integrating Europe by enlarging the European Union and building ever-closer relations with its neighbouring countries is the best approach. With the Stability Pact and the envisaged conclusion of Stabilisation and Association Agreements, the integration process has received new momentum. On the background of these developments, it is essential to give Bulgaria and Romania a clear perspective for the starting of negotiations as proposed now by the Commission. In doing so, the Commission acknowledges the strategic contribution of these countries for European security during the Kosovo crisis and the efforts and sacrifices made by the two countries while preparing their economy and society for EU-membership. The conditions proposed by the Commission for the opening of negotiations are necessary to avoid a watering down of the Copenhagen economic criteria and the conditions for the commencement of accession negotiations. The Commission's proposal to start negotiations with Latvia, Lithuania and Slovakia acknowledges the political and economic achievements made by these countries since November 1998.

ZEI fully supports their pledge for an early opening of negotiations. The paper gives the five countries at stake the chance of expressing their authentic voice to illustrate the progress made since the first Regular Report. The European Council in Helsinki should follow the recommendations of the Commission as outlined in the Composite Paper of its second Regular Report of 13 October 1999 and decide to open accession negotiations with Bulgaria, Latvia, Lithuania, Romania and Slovakia in the next year. In doing so, the European Council will set a clear signal that it is rewarding the efforts of these countries. The decision will attract additional foreign investment, thus helping to consolidate the economy, gradually raise the living standards and stabilise democracy in the five countries. By following the Commission's recommendation, the European Council in Helsinki will take a decisive step towards the ultimate aim of uniting Europe, living up to its statement made in December 1997 which stressed that "extending the European integration model to encompass the whole of the continent is a pledge of future stability and prosperity".

Alexandru Ion Herlea

Romania's Progress in Preparing For Accession to the European Union

1. Introduction

The present intention of the European Union to reunite the European continent, after almost half a century of forced division, represents an essential progress with major moral implications.

Romania's participation in this historic process reflects its deep and legitimate aspirations to return into the European family after having been removed by a totalitarian regime.

There is no doubt that Romania is a European country from its historic tradition. Its sincere hope to be integrated relies on values such as peace, solidarity and democracy, based on economic, monetary and social cohesion.

Therefore, becoming part of the Union comes naturally and is necessary for both, the country itself and for the European continent.

The decision of the European Council in Luxembourg in 1997 consecrates the recognition of Romania's European vocation, representing a clear proof that Romania has understood the duties in connection with the accession process to the European Union and that it is willing to fulfil them.

Practically, the substantial reform of the Romanian society coincides with the preparation for accession. No significant aspect of the transition process occurred outside the European principles. Thus, Romania

considers that there is an essential identity between the socioeconomic reform and European integration.

Romania is aware of the importance of its position in south-eastern Europe and understands to assume an active role regarding stability in this part of the continent, and regional cooperation as a pre-accession requirement.

In addition, to meet the accession criteria within the period elapsed since the meeting of the European Council in Luxembourg in December 1997, Romania has been in full compliance with the priorities set in the National Programme for Accession to the European Union and the Accession Partnership.

2. Political Criteria

The rule of law and the separation of powers in the state have been observed in the last years. The 1996 elections confirmed the constitutional operation of the democratic institutions and their capacity to undergo changes based on political legitimacy.

The relationship between the Executive and the Parliament accelerated the lawmaking procedure. The legislative power became the real forum for debate of the fundamental issues in the contemporary Romanian society. The successful engagement of ministerial responsibility by the Government in May 1999, for an essential legislative package regarding an accelerated process of the economic reform, had confirmed the Parliament's trust in the orientation of the Executive.

In its turn, the judicial authority has strengthened its position. The legislative efforts have focused both on the formal aspect of independence of the judiciary (independence from the political factor) and on the substance aspect (increasing the magistrates' real income and improving their professional level). These measures improved the attractiveness for the judicial profession.

The status of the Superior Council of Magistracy has been reinforced, as an independent body with disciplinary attributions in the field of judicial activity, as well as that of the National Institute of Magistracy, which has become the graduates' single access to magistracy during the last three years.

The role of the Supreme Court of Justice and that of the Constitutional Court has grown. They reflect the Romanian social realities in judicial decisions, thus contributing to a better observance of fundamental rights and freedoms and increasing the legitimacy of judicial implementation.

The Romanian authorities' efforts in preventing and combating corruption are better co-ordinated. New institutions with attributions in this field were established, such as the National Office for Prevention and Combat of Money Laundering, hence improving efficiency for fighting corruption.

During the last years, the Romanian society has been animated by a deep ethical, political and legal debate over the restitution process of nationalised property by the previous constitutional regime. This debate is about to conclude - through a consensus of all the political parties on the legitimacy of restitution - a difficult chapter in the legacy of the recent past. Religious denominations and national minorities have already received nationalised properties through court decisions or through administrative channels.

Thus the strengthening of the democratic fundamental institutions has produced deep changes in the ethics of social relations, mainly between the majority of the population and minorities. The condition of national minorities has improved significantly, through legislation and practical recognition of their rights related to education, higher education, local public administration, patrimony regime of religious denominations etc. The participation of the Hungarian minority in the government has contributed to both its acceptance and empathy, as well as to the isolation of those with extremist orientation.

On a political level, the dialogue between those in power and the opposition has been mediated by the Head of the State regarding matters such as economic reform, privatisation process, restitution of nationalised property. The dialogue has turned into a joint effort for identifying the solutions for the fundamental problems of the Romanian society. The political dialogue between the majority and the opposition in Parliament has resulted in the consolidation of democratic institutions. The consensus of all the political forces in favour of a dialogue and against violence has been expressed on the occasion of the "protest rallies" in

January-February 1999, which confirmed the soundness of the rule of law and the fact that violence is over in Romania.

The efforts made with a view to improving the relations between public institutions and the civil society have launched a process of critical examination of the methods used by the police and the penitentiary staff, which has led to an effective reduction in the number of abuses committed by them. Such measures, as well as the wider process of structural reorganisation of the Ministry of Interior prepared the demilitarisation of the police and its actual reshaping into a public body in service to the community.

Freedom of expression in Romania's democratic and diverse society has been in the process of changing individual mentalities and behaviours, both public and private, ensuring a balance among tradition, renewal and modernity.

The democratisation process experienced during the last decade has been strongly emphasised after November 1996. It has irreversibly modified the economic, social and political environments and has clearly established the objectives that need to be reached, to have Romania regain its place in the European context.

Performances in the field of democracy and the rule of law prove that Romania has met the political criterion, which has been confirmed by the European Commission. This criterion is recognised as prevailing in respect of assessing the overall national performance with a view to meeting accession criteria.

3. *Economic Criteria*

In the economic field, the Government had to manage and correct the great macroeconomic imbalances that had been emphasised by the worsening of structural difficulties of the economy. The state-owned inefficient enterprises were the main cause for the deficit in the state and social insurance budget. The banking system was affected by bad loans. Year after year an oversized budgetary deficit was operated in connection with the budgetary income and the state's real debt.

At the same time, foreign debts with short and medium-term maturity (around 3 billion USD were reimbursed in 1999 alone) were excessive as compared to the country's reimbursing capacity. Moreover, this was aggravated by the unfavourable context of international capital markets and by the negative impact of the armed conflicts in the Balkans area. The current account deficit has worsened and the inflation rate has reached values above the planned level.

Against this background, the Government has increased its efforts in macroeconomic stabilisation, proceeding to the implementation of restrictive budgetary policies and making fiscal policy more strict. At the same time, the National Bank has continued the implementation of a cautious monetary policy.

Within this context, a new Stand-by Agreement with the International Monetary Fund has been reached, out of which a first tranche of 75 million USD has already been transferred for supporting the National Bank currency reserves, which thus exceeded the level of 1.33 billion USD in September 1999. During the previous months, the Bank had been temporarily affected by the peak of foreign debt service.

At the same time, the new Agreement with the World Bank relaunched the structural reform process.

Privatisation in fields such as ready-made clothing, textiles, hide and leather and wood processing reaches between 70 and 93%. In parallel with the continuation of privatisation of small and medium enterprises, several large state-owned enterprises have been privatised (Phoenix S.A., Sometra S.A., Automobile Dacia, Galati Shipyard, Romtelecom, and Petrotel).

The régies autonomes in the field of energy (Renel, Romgaz, Petrom) and transport (SNCFR and National Road Administration) have been restructured and are ready for privatisation, in order to eliminate the monopolies in these fields. By the restructuring of the mining industry, the losses in the field have been reduced by 43%.

A major concern has been the restructuring of the banking sector, which materialised in the finalisation of the first stage of privatisation of

Romanian Development Bank (BRD) and BancPost, as well as in the restructuring of Bancorex.

Structural reform has been also supported through incentive measures for investments, which materialised by adopting a legislative system based on the principle of equality between foreign and domestic investors and on current account convertibility. There are incentives for investments in oil and gas in disadvantaged areas, as well as for investments exceeding 50 million USD with major impact on the economy.

The new legislative framework regarding the regulation of the right of property and the establishment of a market for agricultural land, together with the substantial progress related to price and trade liberalisation do increase the stability of the business environment in Romania. These measures meet the provisions of the European Agreement, while meeting the agreed timetable.

In this context, Romania's economy has continued to integrate in the European Single Market, the weight of its foreign trade developed with the European Union Member States growing to 67.4% in 1998. At the same time, the trade balance deficit has been reduced by 435 million Euro in the first semester of 1999 as compared to the same period in the previous year. The foreign debt decreased to 8.1 billion USD in June 1999 as compared to 9.7 USD in December 1998. Regarding imports in primary energy resources, the fact that the total imports were reduced to 7.5% in the first semester of 1999, as compared to 13.6% during the corresponding period of the previous year, shows encouraging signs regarding the improvement of foreign trade structure.

The Romanian Government, aware of the special social implications of implementing the structured reform programmes, has prepared, with the support of the European Union, a wide programme for alleviating these effects. However, this will not affect its decision of continuing the implementation of reforms and of expressing its conviction that positive results will appear as soon as the end of this year, when an economic growth will take place, which could be consolidated next year, also by attracting official and private foreign investments.

4. Capacity of Absorption of the Acquis Communautaire

After the Luxembourg European Council, the legislative harmonisation process, until then limited to Internal Market fields, has been accelerated and extended to the whole *acquis communautaire*.

Romania's National Programme for Accession to the European Union represents the programme framework for continuing on short and medium-term the alignment of national legislation to EU norms and for creating the institutions empowered to implement them.

Together with the other candidate countries, Romania has participated in the screening of the *acquis communautaire*, prior to actual accession negotiations.

The taking over of the *acquis communautaire* into the Romanian legislation is well advanced in the following fields: consumer protection, telecommunications, transport, energy, customs, statistics, regional development, research and development, education and training, competition, international trade relations. In fact, these will be the fields out of which will be chosen the ones for which accession negotiations will start in the year 2000.

In connection with the ensurance of the four freedoms of the Internal Market, Romania's legislation has made sensitive progress that converges towards the full absorption of the *acquis communautaire* in a rhythm that will allow the completion of the process, in general terms, by the year 2003.

In fact, the current level of absorption of the *acquis communautaire* for the Internal Market is about 75% (partial and full compliance).

The legislation on the separation of standardisation activity from the regulatory one has been a real progress for promoting free movement of goods.

The regulation on public procurements ensures both the improvement of the public resources allocation system and the access to non-reimbursable amounts which will be made available to Romania through the new financial instruments of the European Union.

For strengthening financial discipline, internal control mechanisms, compatible with requirements for preparing Romania's accession to the European Union, will be established by adopting a regulation regarding an internal audit and an ex-ante financial control.

The law on state aid regulates the information, monitoring and reporting procedures of state aids granted in Romania. An inventory of the state aids received during 1995-1997 has been made and the Report for 1998 is in the process of being finalised.

The existing legislation on banking activity aims at strengthening the independence and the authority of the Central Bank, as well as strengthening its supervision capacity over the activity of other authorised banks.

The new law on insurance and reinsurance, which is pending under approval of the Parliament, will ensure the gradual implementation of the European directives on free movement of services and will allow the establishment of foreign insurance branches and representative offices on Romania's territory.

In the field of free movement of persons, there have been elaborated a series of legal instruments regarding the recognition of diplomas obtained abroad. For ensuring the actual free movement of students, the process of introducing non-transferrable credits has been introduced on the Academic level. Efforts are being made towards amending the existing agreements and negotiating new agreements with the Member States of the European Union regarding access to Labour markets.

The legislative reform in education and professional training focuses among other things on decentralisation of educational management, curricula reform and training of human resources capable to support Romania's European integration process. The National Council for Curriculum is operational and there is the National Agency for Employment and Professional Training, which organises and co-ordinates the professional training of Labour force at a local and national level.

Romania is taking part in The 5th Framework Programme of the European Union in the field of research and technological development.

As regards public health, the law on health insurance and the law on public health came into force. They aim at decentralising the sanitary system and at defining the authorities in the field of public health assistance.

Special attention is being given to the establishment of the institutional framework for implementing legislation. The following institutions have been established and are in operation: Competition Council, Competition Office, Romanian Copyright Office, State Office for Inventions and Trademarks, Standardisation Association in Romania, Consumer's Protection Office.

The necessary structures to manage EU financial Assistance are already operational. Starting from the year 2000, every year they will handle funds amounting to 630 million Euro (the National Pre-Accession Fund and the PHARE Central Finance and Contracts Unit).

At the level of central administration, clear attributions are established for the co-ordination of PHARE, ISPA and SAPARD programmes, and for the sectoral strategies available to Romania hence allowing rapid identification of the projects that will be financed by these instruments. In the administration the multi-annual programming capacity has been created, materialised in the elaboration of the National Programme for Romania's Accession and the National Development Plan and the necessary legislation for Community Assistance management has been promoted (public procurement, ex-ante financial control and internal audit). At present there are specialists available in the central administration, who ensure the necessary capacity for the absorption of funds.

Romania views the pre-accession instruments having a twofold meaning: in a direct manner, for supporting preparation for accession, through legislative harmonisation, institution building and investments, and in an indirect manner, for preparing participation in the European structural funds' system, after accession.

The positive results registered in the adoption of the *acquis communautaire* have created the premises for concluding the first stage of this process, provided by the European Association Agreement.

5. Administrative Reform

Major changes are in progress in Romania in the area of the relations between public institutions and society, in the functioning of administrative infrastructures and in the structural, mentality and professional profile of the civil service body.

The administration reform programme is based on the principle of separation of political functions from the administrative ones, on the transparency of governmental actions, on decision making autonomy and on the respect for citizens in order to consolidate a stable and professional civil service which can cope with the needs of the implementation of the *acquis communautaire*.

The year 1999 represents a turning point marking the achievement of the new legal framework in the field of the public administration reform.

Important progress has been made in simplifying and making more effective the decision making process through Government restructuring towards decreasing the number of staff and transferring attributions to other institutions, which are more flexible and adaptable to change, and more connected to the economic and social environment. The role, responsibilities and relations between the various levels of the central public administration will be defined very clearly in the exercise of strategic, regulatory, administration, representation and authority functions. The law of ministerial responsibility has been promoted.

The new Law of the Civil Service promotes the development of a special body of technocrats ensuring stability before political changes, in order to increase the efficiency of the civil service and the citizen's trust in state institutions.

The process of administrative decentralisation is in progress, for strengthening the local autonomy and decentralising public services through legislation adopted in the fields of local public finance, public property and concessioning of public services.

Institutional, administrative and financial mechanisms were established for implementing the regional development policy with the purpose of supporting disadvantaged areas, and for the economic, social and cultural

revitalisation of these areas. Thus the conditions necessary for the implementation of structural EU-specific policies are in place, with a view to achieving economic and social cohesion.

The administrative reform process, shaped by the above mentioned coordinates, will be strengthened and will provide a framework - on medium-term - to accomplish the Community duties at an acceptable level as required for a Member State.

6. Conclusion

Romania is confident that the meeting of the European Council in Helsinki in December 1999 will reiterate the continuity of the enlargement process of the European Union launched in December 1997 in Luxembourg, whose inclusive character is meant for all associated countries. In this light, accession has been identified as a major opportunity for promoting the national interest, the development of its economic potential and cultural patrimony, thus promoting national solidarity. Romania will be able to play its role as an active part in the European integration process by assuming and exercising the duties incumbent upon her, and by taking part in the assimilation, development and implementation of the *acquis communautaire*. The decision and the efforts engaged to making progress along this road of integration, in a regional and international context that has often negatively affected its economic achievements, have on the other hand strengthened Romania's position as a regional and European pole of stability.

Consequently, Romania's invitation by the European Council in Helsinki to start accession negotiations will be not only a major incentive for the Romanian administration and society, but also an important step in the process of building a united and stable Europe.

Stanislav Daskalov

Why Should the European Council in Helsinki Invite Bulgaria to Start EU-Accession Negotiations in 2000?

1. Introduction

Pursuant to its national priority to become a member of the European Union, Bulgaria has accelerated its efforts to prepare itself to start accession negotiations in accordance with the Copenhagen criteria. An objective assessment suggests that at present Bulgaria meets these criteria for the purposes of commencing negotiations for membership.

At present Bulgaria is undergoing the bilateral phase of the screening process and the sessions held up to now reveal that in a great number of areas the Bulgarian legislation is to a large extent aligned to the *acquis communautaire*. In May 1999 the government adopted an updated and upgraded National Programme for the Adoption of the *Acquis*. A preliminary draft of a National Development Plan was prepared in May and transmitted to the Commission for comments. In June the government presented its 1999 Progress Report and signed with the Commission a Joint Assessment of Bulgaria's Medium-Term Economic Policy Priorities. Bulgaria is fulfilling its commitments under the Europe Agreement and is also meeting the priorities under the Accession Partnership.

The status of Bulgaria in meeting the Copenhagen criteria is as follows:

2. Political Criteria

In its Regular Report of November 1998 the European Commission concluded that Bulgaria has fulfilled the Copenhagen political criteria.

The political process of establishment and strengthening of democratic institutions in Bulgaria is completed. Real guarantees for the irreversibility of democracy have been ensured. The constitutional division of powers is respected. The legislative, the executive and judiciary co-operate efficiently in the realisation of the goals of the reform programmes. The institutions of the state are stable. The policy of searching for consensus on vital national issues is continuously pursued.

A strategy for the introduction of a modern administrative system and judiciary is being successfully implemented.

The process of strengthening of the judiciary is an important guarantee for the successful implementation of the government strategy for combating crime and the efficient future participation of Bulgaria in the Single Market. As envisaged by the Constitution, a three-tier jurisdiction has been introduced. In 1998, substantial amendments and supplements to the Law on the Judiciary were introduced which aimed, inter alia, at the alignment of the Prosecution to modern standards and judicial requirements. After substantial amendments in the Notary and Notary Procedures Act, private notary services have been well established and are functioning in a satisfactory way. The Ministry of Justice and Legal Eurointegration has set up a Magistrates Training Centre.

The National strategy to combat crime adopted in 1998 provides for modernisation of the regulations and introduction of more rigorous penal responsibility in regard to corruption in all its forms. Bulgaria was the first Non-Member State of OECD to ratify the Convention for Combat against the Subornation of Foreign Officials in International Commercial Agreements. In January 1999 the National Assembly adopted the Act on the Amendment to the Penal Code, according to which bribery of foreign officials in international trade is qualified as a crime. Bulgaria also acceded to the Criminal Convention on Corruption in 1999.

The provisions of the Constitution regulating the fundamental rights and freedoms of citizens have an immediate effect. Bulgaria is party to all

fundamental UN conventions on human rights as well as to 29 international legal documents of the Council of Europe. Recently Bulgaria acceded to Protocol No. 6 of the European Convention for the Protection of Human Rights and Fundamental Freedoms, concerning the abolition of capital punishment and ratified the Framework Convention of the Council of Europe for the Protection of National Minorities.

All Bulgarian citizens regardless of their ethnic origin and identity are entitled to be elected in the representative bodies at a central and local level and to take part in the decision making process. The Turkish population in Bulgaria continues to be fully integrated and represented in political life. The efforts for the institutional strengthening of the National Council for Ethnic and Demographic Affairs continue. In April 1999 the Council of Ministers adopted the Framework Programme for 'Full Integration of the Roma Population into the Bulgarian Society' that was supported by over 150 Roma organisations. The programme envisages measures for addressing specific problems of the Bulgarian Roma in such areas as employment, social security, health care, education; housing and access to arable land; protection and promotion of their ethnic identity and culture.

3. *Economic Criteria*

For all practical purposes Bulgaria can be regarded at present as a functioning market economy and, in the medium term, will be capable of withstanding the competitive pressure and market forces in the EU, provided it sustains the present pace of economic and structural reforms.

During 1998 and 1999 Bulgaria's economy was characterised by sustained macroeconomic stability. The results achieved can be attributed to domestic factors despite the negative external impact of the financial crisis in Asia and Russia, and the Kosovo conflict. Bulgaria has demonstrated progress in the nominal implementation of the Maastricht criteria thanks to the successful introduction of a currency board arrangement. In September 1998 a three-year Extended Fund Facility with the International Monetary Fund was signed. A sustainable internal balance between stable prices and constantly increasing budget revenues (a budget surplus of 1,5% of GDP for 1998) has been achieved. The low interest

rate has significantly increased investment and decreased the internal debt burden. The total value of the debt to the value of GDP was 113,5% in 1997, 83% in 1998 and 77% at the end of July 1999. The privatised assets by the end of August 1999 are 42% of the total sum of assets in State-owned enterprises which represent 64% of assets up for privatisation. These indicators will show a further increase in 1999 after the completion of the privatisation of the Bulgarian Telecommunications Company and of Neftochim, which are both underway.

The prospects for the flow of foreign investment into the Bulgarian economy are relatively good. The cumulative foreign investment per capita remains below averages in Central Europe. Since 1997, however, the share of direct foreign investment in Bulgaria's GDP is approximately equal to the one in the forefront applicant-member countries. In 1999 the volume of FDI will be much bigger than in 1997 and 1998. The focus in attracting foreign investment has shifted recently towards creating an overall improvement in the general climate for investment in the country in the context of the privatisation of strategic enterprises.

The total relative share of regulated prices in the consumer basket is 17.2% (14% controlled prices and 3.2% with partial control) and is comparable with that in the first wave countries for accession to the EU (13.3% for the Czech Republic, 24.0% for Estonia, and 15.9% for Hungary). An important element of price liberalisation was the unification of VAT rates, which completely eliminated the administrative impact on relative prices.

Bulgaria is implementing a consistent policy of foreign trade liberalisation. The tariff measures are predictable and represent the main instrument of trade policy. The changes since the beginning of 1999 have been directed at a decrease in the average customs duty rates, as well as of tariff peaks. Since the beginning of 1998 all export taxes have virtually been revoked. At the beginning of 1999 the temporary import surcharge in support of the balance of payments, was also abolished. The nominal level of tariff protection on industrial goods imported from the EU in 1999 is low: 3.6% (compared to 12.6% for countries with a MFN treatment). At present the import regime is based exclusively on WTO norms. The degree of trade liberalisation in Bulgaria is comparable, and

in some cases exceeds, the level of the first wave countries for EU accession. New free trade agreements with CEFTA and with Turkey have become effective since the beginning of 1999. Negotiations are in progress with the Baltic States, Macedonia, and Israel. Bulgaria's relative status in terms of trade integration is comparable to that of the other applicants. While in 1991 the relative share of the country's trade with the EU was 15.7% for exports and 20.7% on imports, in the first quarter of 1999 it grew to 60.3% and 49.3% respectively. Regardless of the relative geographic distance within the EU, its share in Bulgaria's trade is larger than that of Spain and Greece prior to their accession. A temporary problem for Bulgaria is the infrastructure obstacles ensuing from the Kosovo crisis.

The Transition Report of the EBRD concludes that the Bulgarian Trade Act and the trade regime are comparatively clear, applicable, and adequately implemented. Bulgaria's rating in this respect is the same as that of the Czech Republic, Hungary and Poland, and is better than Estonia and Slovenia. The information on the registration of companies in Bulgaria shows that in reality there are no barriers to market entry. The relative share of the private sector in gross added value has gone from 17.5% to 63.7% in the period between 1991 and 1998; with small- and medium-sized enterprises having the largest contribution. The Bulgarian law ensures that the owners and creditors of companies can freely file a bankruptcy or liquidation procedure. These procedures are based on European legislation. During the first four months of 1999, about 1200 procedures for liquidation and 50 for bankruptcy have been launched with a much faster pace than in previous periods.

Progress in respect to the execution and enforcement of law and contracts can be seen in three areas: improved implementation of laws regarding property and financial violations; improved possibilities for speedy and effective processing regarding the execution of contracts; decrease in the general level of corruption. One of the spheres in which state regulation and legal enforcement are especially successful is intellectual property rights.

The harmonisation of the legislative and regulatory framework of the financial sector in Bulgaria is continuing. In August 1998 the Bulgarian

National Bank enacted Ordinance 22 on the Establishment of a Central Credit Register, which increased the reliability of decision making in the field of lending. Since the end of 1998, important changes have been introduced in national accounting standards aimed at bringing them closer to international standards. An Early Warning System was established which aims at identifying potential risks to bank portfolios. The most significant change in the structure of lending is in its re-channelling from the state to the private sector. The relative share of loans to the private sector grew from 43.6% in 1998 to 68% by the end of April 1999. There has been considerable growth in the capital adequacy and liquidity of the banks. Yet, the relative share of bank intermediation is below the level of developed market economies. Following the privatisation of Expressbank, Hebrosbank and Bulbank to strategic investors in the course of 1999, the share of the State banks in the assets of the banking sector in the year 2000 will be insignificant and the overall situation will be considerably improved.

In 1998 the Government defined investment in infrastructure as a priority in the public sector until the year 2001. Internal savings are insufficient to finance it and foreign investments are especially important for the improvement of physical resources. Regarding human resources, Bulgaria has qualified personnel and a comparatively good educational system.

The impact of the Government's policy and of the legislation on competitiveness is generally favourable. Domestic trade in Bulgaria has been liberalised, with the exception of the natural or regulated monopolies. The foreign trade regime is liberal. The Law on Protection of Competition (May 1998) is fully aligned with European norms. As a result of a group of measures, by the end of 1999 the institutional framework for small- and medium-sized enterprises (SME) in Bulgaria will be consolidated and fully functional. The share of SMEs in the Bulgarian economy is relatively high and growing. The trend is for SMEs to play an ever-growing strategic role in the medium term as economic entities; their economic efficiency is much higher than that of larger enterprises and they have a much larger sale per assets ratio; SMEs provide flexibility, entrepreneurship, and a significant number of new jobs.

The main barriers to the presence of a functioning market economy have been eliminated by the liberalisation of prices and trade and a macroeconomic stability which has been sustained for over two years. Stable prices, a low interest rate, and growing budget revenues are indicators pointing to a stable market balance between supply and demand. Remarkable progress has been achieved through the expansion of the private sector and the increase of liquidation or bankruptcy procedures of a large number of inefficient enterprises. The balance of payments is stable and the currency reserves of the country are growing. There is a wide consensus in Bulgaria on the main direction of economic policies and reform.

The medium term prospects for Bulgaria to cope with the competitive pressures of market forces in the EU are good. The main elements of a market economy in Bulgaria are functioning in the environment of macroeconomic stability. The degree of trade integration with the EU is notable and contributes to the further strengthening of the capacity of the economy to withstand competitive pressures. The share of small and medium sized enterprises in the Bulgarian economy is comparatively high and growing, and in the medium term they will play an important role.

4. Ability to Assume the Obligations of Membership

The process of transposition of Community legislation in Bulgaria has been accelerated and extended over almost all sectors. Important improvement in implementation and enforcement capacity has been noted. Notable progress has been achieved in introducing the *acquis* as regards the internal market, especially in the areas of public procurement, intellectual and industrial property, standardisation, competition, movement of capital, financial services, taxation, veterinary and phytosanitary control, customs, SMEs, energy, regional development, environment, consumer protection, as well as in the field of Justice and Home Affairs.

The new Public Procurement Law that is based on the principles of transparency and equal treatment was adopted in June 1999. The law is based on the provisions of the directives on public procurement concerning both classical and utilities sectors.

Full transposition of the *acquis communautaire* in the field of industrial property has been achieved through the adoption of the Law on Industrial Design, Law on Trade Marks and Geographical Indications and Law on Topographies of Semi-conductors.

The newly adopted Law on National Standardization has laid down the basic principles of development and implementation of standards, such as: transparency, involvement of all concerned parties, the voluntary character of implementation of standards, distinction of standardisation and certification functions. The concept of public responsibility for damages caused by defective products was introduced in the Law on Consumer Protection and Rules for Trade.

In the area of competition, significant progress has been noted, particularly in law-enforcement during the first year of implementation of the new Law on the Protection of Competition.

The new or amended tax legislation is aligned to the requirements of the *acquis communautaire*. The new VAT Act in its principles and mechanisms provides full compliance with the requirements of the EU Sixth Directive. The Act on amendment of the Excise Duties Act achieves full harmonisation in the area of excise duties.

Aiming at facilitation of the integration into the internal market of agricultural products, the Law on Veterinary Activity was adopted, accompanied by the relevant secondary legislation. The acts adopted implemented a significant part of the EU legislation in the field of veterinary activity.

The new Customs Act and its corresponding Implementing Regulations came into force in January 1999. These acts are aligned with EU legislation. The new Customs Tariff, in force since 1999 is entirely based on the EU Combined Nomenclature.

Significant progress has been achieved in the energy sector. The newly adopted Law on Energy and Energy Efficiency provides for the overall organisation of relations in the energy sector related to state management and regulation of that sector. It regulates the rights and obligations of legal subjects in the field of generation, transmission, distribution and sales of electric and heating energy and the transmission, storage,

distribution and sales of natural gas. The Law, aiming at the implementation of market mechanisms and competitive environment in the energy sector, reflects the main principles of the EC directives concerning the common market of electricity and natural gas.

The basic legal framework for the implementation of the regional policy has been adopted. The Regional Development Act, in force since March 1999, sets the regulatory framework of medium- and long-term measures worked out in compliance with the 3 year forecasts in the State Budget and the National Plan for Regional Development (NPRD).

In the field of environment, Bulgaria has initiated measures in the process of gradual establishment of a legislative system, adequate to the EC requirements. Introduction of procedures and rules of procedures of state administration on horizontal environmental management have taken place. The EIA procedure has been completely harmonised. The introduction of basic requirements for protection of quality of environment and its components has been achieved by adoption and implementation of framework acts, such as: Water Management Act, Limitation of Harmful Impact of Waste upon Environment Act and Law on Protected Areas.

In the field of Justice and Home Affairs, new legislation has been introduced accompanied by the respective implementation. A comprehensive set of measures has been taken to strengthen border control and counteract illegal migration – a uniform police structure has been set up to guard the state frontier, and issuing of the new Bulgarian identity documents has been started. Resulting from the measures undertaken, the immigration pressure from the territory of Bulgaria to the EU countries has further decreased.

5. *Administrative Capacity to Apply the Acquis*

The institutional strengthening and development of an administrative capacity is a key priority in the process of the adoption of the *acquis communautaire* in Bulgaria. The Law on the State Administration and the Law on the Civil Service have already been adopted by Parliament. A single classifier of grades in state administration has also been adopted. A special programme for training of public officials on European Integration

is being developed. The administrative capacity in the main sectors has improved and one should mention especially the areas of competition, state aids, protection of intellectual property, veterinary control, tax collection, Justice and Home Affairs, telecommunications, energy.

6. *The Kosovo Crisis and EU Enlargement*

Bulgaria's accession to the EU should also be seen in the light of its role in stabilising South East Europe. The conflicts in former Yugoslavia and most recently in Kosovo revealed clearly that Bulgaria holds a unique place in the region in terms of political and economic stability, ethnic tolerance and good neighbourliness. The Kosovo crisis also demonstrated that the stability of the region should be seen in the light of its European integration perspective. Therefore the enlargement strategy of the European Union should pay due attention to South East Europe. Otherwise lasting stability will not be achieved in the Balkans and the differences in economic development between First Wave and the Second Wave countries will be worsened especially in terms of trade and investment opportunities. This will diminish the perspectives for membership of Second Wave countries. A decision at the European Council in Helsinki to begin accession negotiations with Bulgaria will represent a strong positive signal in support of its successful economic reform efforts, political and ethnic stability and will be a contribution to the stability of the region. Besides, this will be the ideal signal for foreign investors. Last but not least, it will be a good motivation for the people of Serbia in the context of their efforts to overthrow the Milosevic regime.

Ján Figel'

Progress of Slovakia since the Regular Report 1998

1. Introduction

The period since the parliamentary elections (25-26 September 1998) can be characterised as the beginning of new higher quality and more intensive political dialogue between Slovakia and the European Union, in which the atmosphere of mutual contacts has substantially changed.

Slovakia is determined to do its utmost in order that the European Council in Helsinki in December 1999 takes the decision to start accession negotiations with Slovakia as a result of a positive recommendation of the Regular Report reflecting the situation in a fulfilment of the short and medium term priorities arising from the Accession Partnership. In this endeavour the Slovak Republic is building upon on the conclusions from the Luxembourg Council in particular, where Union enlargement was defined as a comprehensive, inclusive and continual process, while each candidate country will proceed at its own pace according to its own merits.

Progress made by Slovakia from the Commission's Report in November 1998 could be clearly evaluated by the results of the High Level Working Group (HLWG) meetings from November 1998 till September 1999. The HLWG was established on 6 November 1998 by the Prime Minister Mikuláš Dzurinda and the Commissioner Hans van den Broek (the HLWG was then led by State Secretary Ján Fige^{3/4} and François Lamoureux, Deputy Director General of DG1A). The objectives of the HLWG were to speed up and facilitate the preparations for Slovakia's membership in the EU, to foster fulfilment of political and economic

criteria, approximation of legislation and reinforcement of institutional and administrative capacity.

2. *Political criteria*

The Parliamentary elections took place in September 1998. Election turnout was over 84%. Both domestic and foreign observers concluded that the elections were free and just.

The municipal elections were carried out in December 1998 in accordance with the electoral provisions set by a new amendment to the Law on Local Elections, which was harmonised with the Ruling of the Constitutional Court. According to the OSCE, voting and counting provisions were conducted properly, in accordance with OSCE commitments.

In May 1999, Mr. Rudolf Schuster was elected President of the Slovak Republic by universal suffrage following the Law on Presidential Elections. Voting and counting provisions were completed in accordance with OSCE commitments.

After parliamentary elections in September 1998 the effective and proportional participation of the opposition in parliamentary oversight committees and supervisory boards has been ensured. The chairmanship has been offered to the opposition in 6 out of 18 parliamentary committees.

At the same time a representative of the governmental Hungarian Coalition Party was appointed to the post of Deputy Prime Minister for human rights, minorities and regional development. The Government's plenipotentiary for addressing Romany minority issues was appointed in February 1999. The Law on the Use of Minority Languages was adopted by the Parliament in July 1999 after its draft had been discussed with OSCE High Commissioner Max van der Stoel and representatives from the Council of Europe and European Commission and approved by the coalition council. It became effective on 1 September 1999. Bilingual certificates for primary and secondary schools are issued again.

The responsibility to propose candidates for judges of district and regional courts was shifted in December 1998 to the three professional judicial institutions: Board of Judges, the Collegium of Judges and the Association

of Judges of the Slovak Republic. During the appointment process of the presidents of courts in January 1999, the Minister of Justice followed the advice of the above-mentioned professional judicial institutions. The Minister proposed to the Chairman of the Parliament the elimination of the probation period following the initial elections of judges in the amendment of the Constitution.

Bribery was reintroduced as a criminal act in January 1999 through an Amendment to the Criminal Code.

3. *Economic criteria*

The Government inherited a situation of deep imbalance, which is a result of the economic policy for which a discrepancy between goals and the resources for their achievement was characteristic in recent years. Falling behind in the accumulation of resources and unrealistically high goals resulted in great stress on public budgets, a current account deficit and unbearable foreign debt. The Government is trying to solve this situation by implementation of a new economic policy based on three parallel processes: firstly, measures to prevent the collapse of some sectors, such as healthcare and education, are necessary; secondly, stabilisation measures whose principal goals must include a decrease in the fiscal deficit and deficit in the balance of payments need to be taken; thirdly, conditions need to be created for the accelerated restructuring and modernisation of the Slovak economy, in particular revitalisation of the entrepreneurial environment and realisation of institutional changes that will lead to the effective functioning of markets (capital, financial, labour markets).

Accelerated restructuring of the Slovak economy and support for increasing its competitiveness is a prerequisite for the sustainability of economic growth. The Government has therefore prepared a medium-term programme for the development of structural reforms and transformation of the Slovak economy. The Task Force for Medium-Term Policy Priorities and Joint Assessment was established in December. In August 1999 the Government adopted the "Medium-term Concept of Economic and Social Development of the Slovak Republic". This important document outlines the medium-term economic policy priorities

of the Slovak Government. It incorporates and refers to several other concept documents, which cover specific areas, including the reform of public administration and bank and enterprise restructuring.

a) Implementation of policies aimed at macroeconomic stability

In January 1999 the Government approved economic measures aimed at tackling macroeconomic imbalances and increasing the competitiveness of the Slovak economy. The "Package of Economic Measures" sets out two types of measures to be carried out in 1999: (i) macroeconomic designed to cut down public expenditures and mobilise public finance revenues, and (ii) microeconomic measures designed to recover financial discipline of economic agents and start the restructuring processes in the bank and enterprise sectors. In February 1999 the Government adopted a project which breaks down the January framework document into particular legislative norms/regulations and sets the timetable for their implementation.

In April 1999, the Government approved further measures for the stabilisation of budgetary performance on the side of revenues and expenditures such as an increase in the tax on hydrocarbon fuels and lubricants, tax on tobacco and tobacco products.

In May the Government approved a Programme for Recovery - series of macro-adjustment measures to achieve macroeconomic adjustment through a mixture of increased revenues (indirect taxes and upward adjustment of regulated prices) and decreased expenditures, primarily in the area of public administration and social spending. The Programme also reiterates the Government's objective of microeconomic stabilisation, mainly through the privatisation and restructuring of banks and restructuring of enterprises and the elimination of corruption. Substantially all of the measures included in the Programme for Recovery have been implemented. As a result of the Programme, the macroeconomic situation has stabilised, including the currency development which has appreciated about 7% since mid-May.

In the first half of its term, the Government expects a slowdown in the pace of economic growth. This will be caused by both an decrease in domestic demand as a result of reducing the fiscal deficit and the

decreasing competitive capacity of Slovak exports. At the end of its term, the Government expects an increase in long-term sustainable economic growth to the level of 4% to 5% annually.

The Government expects a temporary rise in inflation as a result of the implementation of the long-postponed adjustment of regulated prices. The basic precondition for addressing and stabilizing the pre-crisis state of the Slovak economy and the accumulated neglected problems from recent years is a substantial decrease in the public finance deficit. Measures will be taken not to worsen results of budget economy and not to exceed the deficit of general government above 3% GDP in the year 2000. The table below describes the development of the main macroeconomic indicators during 1997-2000:

	1997	1998	1 st half 1999	Prognosis: 1999	Prognosis: 2000
GDP, billion Sk, constant prices	586,8	612,7	378,3	618,8 - 625,0	625 - 637,5
GDP, billion Sk, current prices	653,9	717,4	307,9	811,5 - 815,2	909,8 - 914,6
Growth rate in %, constant prices	6,5	4,4	2,4	1,0 - 2,0	1,0 - 2,0
Inflation, %	6,1	6,7	7,1	11,4 - 12,0	9 - 11
Unemployment rate, %	12,9	14,6	15,6	17,0	16 - 18

b) Progress on structural reforms and on privatisation

Crucial progress on structural reforms and on privatisation has been achieved especially in the area of banking and enterprise restructuring.

In August 1999, the Government approved the "Programme for Restructuring of Selected Banks and Financial Restructuring of the Enterprise Sector" which completes the conceptual as well as the institutional foundation for a massive adjustment in the banking and enterprise sectors. This document was preceded by the "Concept of Privatisation of Banks with the National Property Fund Participation" which includes privatisation projects for the General Credit Bank (VUB),

the Investment and Development Bank (IRB), forty nine percent of the Slovak Savings Bank (SLSP) and Banka Slovakia (BS). In addition to detailed time schedules, the Programme of Restructuring includes action plans in the areas of bank privatisation, enterprise adjustment and work out schemes for bad debts, and necessary legislative changes for a reform of the bankruptcy framework.

The process of bank and enterprise restructuring is taking place with active participation of the donor community. The World Bank has been pursuing an adjustment reform programme in Slovakia, helped the Government design a reform programme and come up with solutions to the massive enterprise indebtedness problem. To support this reform effort, the Government is receiving technical Assistance from the EU PHARE Programme, US AID and Japanese government. PHARE is providing significant technical Assistance (in the amount of 2.8 MECU) in the area of bank privatisation.

The first stage of the pre-privatisation restructuring of banks, which will start this autumn, will increase in accordance with the recommendations of the Basel Committee for Banking Supervision the capital adequacy ratio of the restructured banks to the level of 8%, through their re-capitalisation. In the second stage the classified loans will be transferred to the Consolidation Bank and special purpose vehicles (bank subsidiaries) which will focus on working out these debts.

A crucial component of the restructuring process is a speedy reform of the bankruptcy system, which would unblock the financial flows in the enterprise sector and enable the financial assets to migrate to more efficient uses. A team of Slovak and international experts is preparing a set of legislative amendments, expected to be adopted by the end of 1999.

In July the Government approved an amendment of the so called Large-scale Privatisation Law. The draft Law has been submitted to the Parliament and it is expected to be adopted in the September session. The main features of the new draft are: abolishment of the Law on Strategic Enterprises and enabling the privatisation of natural monopolies and utilities; defining the competencies in administering shareholders rights in fully or partially state-owned enterprises; adaptation of the transparency

of rules and oversight systems for the next stage of privatisation; and revitalisation of the stock market.

The Government paid great attention to increasing the competitiveness of Slovak industry through the creation of favorable conditions for intensified involvement by domestic and foreign investors in the Restructuring process and development of Slovak industry. The Government adopted a strategy for the Foreign Direct Investment (FDI) flow to the SR in March 1999. In the field of legislation, harmonisation of VAT and other indirect taxes with EU taxes is assumed. In the field of finance, a tax holiday of 5 years is proposed provided, that investments are to be no less than 5 million Euro, the joint stocks company was established after April 1, 1999 and at least 60% of the shares are owned by foreign investors. Furthermore, a lowering of income tax is proposed by the year 2001 at the latest.

The National Property Fund (NPF) finished the process of examination of past privatisation transactions. The NPF's report on the results will be submitted to the Government after being discussed by the economic ministers. The NPF has already reached significant results, when the shares of Spa Piešťany, Izomat Nová Baňa, Slovnaft Bratislava and others were transferred back to the portfolio of NPF.

4. *Internal market acquis*

During last year significant progress in adoption of the *acquis communautaire* in the field of internal market has been attained. In particular following legislation has been high on the agenda: law on technical requirements on products and conformity assessment, state aid law and public procurement law.

In August 1999, the Parliament adopted the Law on State Aid. As of the state aid act's entry into force on 1 January 2000, an independent authority for monitoring state aid will be established.

The Law on Public Procurement and Law on Technical Requirements on Products and Conformity Assessment, both approved by the Government are expected to be adopted by Parliament in September. An independent authority for public procurement will be established.

5. Reinforcement of Institutional and Administrative Capacity

A Ministerial Council for European Integration was established in December 1998. It is composed of 6 members of the Government responsible for key areas in the pre-accession period.

The Government in August 1999 approved its "Strategy on Reform and Decentralisation of Public Administration". The Strategy forms a basis for implementation of decentralisation and modernisation of public administration.

In order to facilitate pre-accession instruments (PHARE 2000, SAPARD, ISPA) Slovakia started to set up structures for regional and structural policy. The Ministry of Construction and Public Works will be transformed into the Ministry of Construction and Regional Development according to the new Law on Organisation of Ministries and other Central Authorities, the draft of which was approved by the Government on 18 August 1999. At the same session, the Government approved plans for the creation of a National Agency for Regional Development (NARD), together with an Integrated Network of regional development agencies. These institutions are expected to be established by 1 November 1999.

Following the change of Government, Civil Service Law was withdrawn from the legislative process on the basis of valid legislation (the new Parliament assesses every draft act as a completely new draft act) and returned to the submitter - the Ministry of Labour, Social Affairs and Family for revision in line with the new political situation. The Government will discuss the draft state service act by the end of this year.

6. Additional priorities

A joint EC-Slovakia Group on Nuclear Energy was created on 1 June 1999. The Group discussed an overall nuclear energy strategy, as well as a plan for creating conditions for closure of Bohunice V-1 and the development of appropriate financing schemes. In the summer, the Government prepared a draft "Nuclear Energy Strategy of Slovakia". The

Strategy proposes the closure of Bohunice V-1 in 2010-2012 and presents a decision not to complete the construction of Mochovce 3 and 4.

Shortly after assuming office, the Government carried out a reorganisation of the Police Presidium - to make it more effective in the fight against organised crime. The organisational changes focused on centralisation and co-ordination of different units that are tasked with combatting organised crime.

On 1 March 1999 the Slovak Republic started to carry out so-called bilateral screening, or analytical examination of the acquis, which, except for the chapter on agriculture, were completed on 25 June 1999. The chapter on agriculture will be screened this autumn. In May 1999 the Slovak Republic presented the European Commission with a revised version of its National Program for the Adoption of the acquis communautaire, which is a key document in the process of approaching membership in the EU.

7. Conclusion

Since the Parliamentary elections in September 1998, substantial political change has taken place in Slovakia in order to stabilize the political system and the functioning of democracy. As a result of sustained effort, the political criteria of EU-membership have been fulfilled. Concerning the economic criteria, the Government has taken measures which should be instrumental in the effort to stabilize the current macroeconomic situation.

Slovakia believes that the progress achieved since the Progress Report in 1998, will enable the Commission to recommend Slovakia for the start of negotiations in spring of 2000.

Latvia on its Way to the EU

1. Introduction

The enlargement of the European Union is a historic opportunity for Europe to invest in a promising future. As new members meet EU standards and bring their unique human and geographical resources to the EU, Europe as a whole benefits.

The security of all EU members will increase as neighboring Central and Eastern European countries achieve the social stability, political maturity and sustained growth that qualifies them for EU-membership. Enlargement increases both the economic and political power and prestige of the European Union in an increasingly globalised international setting. The energy, enthusiasm and fresh ideas of young democracies will bring a new dynamism to the European Union.

As the demand for financial, communication and other services grows in the acceding countries, Community providers will enjoy competitive advantages in nearby markets. Enlargement will stimulate competition in existing Community markets, softening market rigidities and fostering Europe-wide research, growth and development.

The hope for a stable, secure and prosperous Europe will only be fulfilled when Latvia joins its neighbours as a fully responsible and actively contributing member. That process has already begun. Latvia today is ready to complete the final steps which will enable Latvia and the EU to achieve their mutual goal: a united Europe, whole and free.

Since the restoration of independence, Latvia has pursued a determined policy of integration into the European Union. This policy is a catalyst for reforms in Latvia, boosted by the decisions of the Luxembourg European Council. The results achieved through the pragmatic and consistent approach of Latvia were acknowledged by the European Commission in its Regular Report in 1998 and

confirmed by the Vienna European Council in December 1998. As progress continues, Latvia is waiting for a positive decision concerning the opening of negotiations, a decision based solely on the objective criteria established by the European Council in Copenhagen, providing for an individual assessment of each candidate country.

2. *From Vienna to Helsinki*

The Vienna European Council evaluated Latvia's progress in fulfilling the accession criteria and expressed its intention to propose the opening of accession negotiations before the end of 1999, if the momentum for change was maintained. Since the Commission issued its progress report last year, the Government has continued to work on its reform agenda. This has resulted in the consolidation of earlier reforms and the introduction of new ones.

During 1999, several significant improvements have been made to comply with the political criteria. It is worthwhile to mention the fact that in April 1999 the Saeima ratified the 6th Protocol of European Convention for the Protection of Human Rights and Fundamental Freedoms, thus abolishing the death penalty.

Latvia has implemented all OSCE recommendations in the sphere of citizenship. As a result of the amendments to the Citizenship Law, the number of applications received from 1 January till 1 August 1999 exceeded the number of applications received in the same period last year by almost four times. The naturalisation procedure has been simplified and improved, and the Naturalisation Board has received additional state funding for the accomplishments of its tasks. The National Programme for Language Training has been implemented effectively.

In 1999, a broad public debate on the Society Integration Programme was conducted. On 4 August 1999, the draft Framework Document of the National Programme "Integration of Society in Latvia", which had been revised and updated following the public debate, was submitted to the Cabinet of Ministers for its approval. The action plan for the implementation of the National Programme "Integration of Society in

Latvia” will be developed and with detailed projects will be submitted to the Cabinet of Ministers to begin its implementation.

Also the controversial draft of the Language Law has been sent back by the President to the Saeima committees to be reviewed to ensure its compliance with Latvia’s international obligations. It is expected that the Language Law will be adopted in December 1999.

In macroeconomic terms, Latvian economy is to be considered on the right track. The Russian crisis did not negatively influence the growth of figures, thus the country’s economic achievements have proven its capacity to cope with competitive pressure and market forces within the EU in the medium-term. GDP growth in 1998 was 3.6%. Inflation was only 2.5% in the first half of 1999. The current account deficit decreased from 11% in 1998 to 8.7% in the beginning of 1999. The government has implemented prudent stabilisation policies in compliance with the Latvia - EU Joint Assessment on Economic Policy Priorities.

The implementation of structural reforms is progressing. 97% of former state-owned enterprises are now in private hands. The privatisation of the remaining three large enterprises is to be complete by the year 2000. Three large state enterprises - Latvenergo, Lattelekom and Latvian Shipping Company (LASCO) - are the only state companies which have not been privatised yet. However, privatisation conditions for LASCO were approved in August 1999 and a full sale of state shares is envisaged until the end of 2000. Also Latvenergo, the only state monopolist in the energy sector, must be in private hands until September 2000, according to the government decisions. State shares of the tele-communications company Lattelekom are going to be sold in mid-2000.

The foreign trade regime is considered as liberal. Latvia’s membership in the World Trade Organisation (since October 1998) is an obvious proof of the above-mentioned statement. Therefore, Latvia is the first country among the Baltic States to join WTO.

The Latvian government increasingly invites the local and international business community to participate in discussions on economic and related policies decisions. In order to improve the investment environment, the government commissioned a major report on Administrative Barriers to Investment in Latvia by the Foreign Investment Advisory Service of the

World Bank Group. In response to the observations and recommendations of the report, the Prime Minister established a working group composed of representatives of the business community and government institutions to present an action plan on improving the business environment. The Cabinet of Ministers has accepted the action plan, which has more than 30 activities addressing the areas of concern of investors such as simplification of immigration and residence procedures, enterprise registration, customs procedures, streamlining of issuance of building permits, development of land market and rationalisation of government inspections. As a result of the above-mentioned activities, statistics prove that foreign direct investment grew by 12%. Also Standard & Poor's "BBB" rating for long-term foreign currency debt assigned in June 1999 is an expression of international investor confidence.

As it was stated by the IMF report of August 1999, the medium-term outlook remains largely favourable, provided that Latvia maintains prudent financial policies and moves expeditiously towards completion of its agenda of structural reforms.

In the EU's third pillar area, substantial state funding has been approved for the strengthening of Latvia's Eastern Border. 13.3 million Euro have been allocated for the year 1999. The border demarcation with Latvia-Lithuania and Latvia-Estonia has been fully completed. In September 1999 Latvia has accomplished the demarcation from its side all along the border with Belarus.

Reinforcement of institutional and administrative capacity is well underway. To ensure well balanced and sustainable development of public administration reform, the Minister for Special Tasks in the Field of Public Administration and Local Government Reform was appointed. The new draft of the Civil Service Law has been prepared and a new training strategy for civil service has been developed. Overall 4055 civil servants have been trained in EU affairs and methodologies. The National Institution Building Plan, containing institution building measures listed under various acquis sectors, is an integrate part of the National Programme for the Adoption of Acquis. In the area of customs and taxation systems for customs value and post-importation audit, the risk analysis computerised systems, support system for guarantee mechanisms

and customs debt administration system are being introduced, staff trained. The State Revenue Service tax information system has been modernised. The SRS Customs Action Strategy for the next 3-5 years has been approved. Within the framework of PHARE programme project Judicial Reform the training in EC law is provided. The necessary institutions for the introduction of free movement of goods, state aid, standardisation and certification has been established and is effectively functioning.

The Luxembourg Council confirmed that accession criteria defined by the Copenhagen and Madrid Councils would serve as a basis for the evaluation of the candidates' preparedness to join the accession negotiations and the EU. The above-mentioned shows that Latvia's compliance with accession criteria is sufficient to commence accession negotiations and to maintain the pace once the negotiations are started.

3. *The accession negotiations*

The basic interests of Latvia are: to commence accession negotiations and to get a procedural arrangement that allows Latvia to move at an intensified and individual speed during the negotiation process and to catch up to the already negotiating states.

Latvia believes that the negotiation process should involve only those candidates that are able to assume the EU-membership obligations in the medium-term.

The EU should retain the credibility of the enlargement process and therefore act in accordance with the principles formulated by the EU Member States at the Luxembourg Council, namely, conditionality, objectivity, dynamism of the enlargement process and individual treatment.

Last year's Progress Report confirmed that the quality of reforms accomplished by Latvia corresponds to that of the 'first' group states, and in several areas even transcends it. The existing division of candidates into negotiating and non-negotiating ones forcefully slows down Latvia's speed in the accession process. Latvia believes that activating the "fast

track” approach will offer a fair opportunity to catch up with states already negotiating.

The Helsinki Council should make sure that the “fast track” approach is activated. The most fair and objective way to do this is to invite the prepared candidates to join in the accession negotiations and to review the procedural arrangements of the negotiation process so as to allow the newly invited candidates to catch up to the already negotiating ones.

Egidijus Vareikis

Lithuanian Readiness to Start Negotiations with the EU

Lithuanian attempts to become part of an integrated Europe have been the natural priority since the country regained its independence. Implementation of various parts of the EU acquis is generally seen as a part of the process of becoming a “real” European state whether or not it will culminate in EU membership. Nevertheless, the European agreement of 1995 as well as the formal inclusion in the list of candidate countries combined the historical opportunity to restore Lithuania as a West European state with the well specified membership in the EU.

Following the Commission’s avis of 1997, the European Council in Luxembourg concluded that Lithuania is not among the best prepared candidates and will not be included in the first group of countries starting accession negotiations. Lithuanian officials as well as the general public took this as a signal saying that Lithuania, ready for negotiations and membership politically, was not advanced enough in preparation to the European Union as a “technical project”. In other words, it simply has to work more quickly in law harmonisation as well as in particular areas of the acquis.

The Vienna European Council of 1998 noted that in 1997-1998 “considerable progress has < ...> been made by Lithuania. However, additional measures are needed and some recent decisions need to be tested in practice before it can be considered to meet the Copenhagen economic criteria, which should allow the Commission to propose the opening of negotiations”. This encourages the expectations that at the end of 1999, the decision on the start of negotiations can be positive, because no new major problems have occurred.

The regular dialogue between Lithuania and the European Union is maintained and deepened through a set of various institutions and channels, including Lithuanian-EU association institutions: Association Council, Association Committee, and Joint Parliamentary Committee.

The Association Council positively reviewed the development of Lithuanian - EU bilateral relations, noting that "after one year of functioning of the Europe Agreement, the association mechanisms have reached their cruising speed and allow for a fruitful cooperation between Lithuania and the European Union." The Association Committee has welcomed Lithuania's National Programme for the Adoption of the Acquis this year.

Since 27 March 1998, Lithuania has been participating in the screening exercise. In the beginning of 1999, the first, multilateral, phase of analytical examination of the acquis was completed. The transition to the bilateral phase of the analytical examination started on 1 March 1999, and by the end of June 1999 bilateral screening on 28 chapters has been completed (the screening in the Agricultural chapter will be concluded in autumn 1999).

In April 1999, twenty-nine working groups have been established in Lithuania to draft its negotiating positions, politically under strategic management of the Governmental European Integration Commission chaired by the Prime Minister. During the period from July 1998 to June 1999, it held ten meetings in which it made decisions on the implementation of the National Programme for the Adoption of the Acquis (NPPA) and the Consolidated Priority Action Plan (CPAP) which was later incorporated in the NPPA dealing with harmonising national law to EU standards. Thus there is no space to argue the willingness of both sides to continue the process.

Lithuania always saw itself among champions in fulfilling the Copenhagen political criteria. The events in the year 1999 generally support this. The change of government that took place in early summer generally did not disturb political and social life in the country. The most recent Freedom House Institute (Washington) survey on the state of civil rights and political liberties in the world ranked Lithuania as a free country in Central and Eastern Europe.

Nevertheless, improvements have been made in the area of legislation, regarding political life. In January the Seimas (the Parliament) adopted the Law on Funding of Political Parties and Political Organisations that foresees financial support for political parties from the state budget.

Generally, the biggest political parties can be characterised as extremely stable. The list of the top of them - Homeland Union (Lithuanian Conservatives), Lithuanian Christian Democratic party, Lithuanian Democratic Labour party, Lithuanian Social Democratic party and Lithuanian Central Union - has remained stable, the parties mentioned have been in the highest positions for a few consecutive terms, have been recognised by international party movements, and have faced no dramatic splits.

The European Commission mentioned the weaknesses in the Lithuanian court system as well as the shortages in fighting corruption. In 1999, progress has to be mentioned in these areas.

The three-tier system of administrative courts started functioning in May 1999. The new amendments to the Civil Procedure adopted by the Seimas revised the procedures of appeal and cassation and should substantially shorten court procedures.

In January the Government approved the long term Programme for the Prevention of Organised Crime and Corruption. A few months later it established an inter-departmental working group for the co-ordination of preparation of the new anticorruption programme. As an improvement in human rights, from 1 April 2000 onwards, the previously compulsory disclosure of place of residence on passports will be replaced by a voluntary declaration of place of residence.

Since the release of the last Regular Report on Progress towards Accession of 1998, the Lithuanian economy has undergone changes that have resulted from both external influences, namely the Russian economic crisis, which became apparent in September 1998, and government economic policy aimed at further restructuring the economy and establishing the institutional environment for a functioning market economy.

The Russian crisis had been, among other influences, the test for Lithuania's economy. Unlike economies of the Commonwealth of Independent States' countries, which were mostly deteriorated, Lithuania faced an impact similar to other countries preparing or even negotiating with EU (as Estonia or Poland). Though shrinking trade with CIS states

reduced GDP growth, the country remains the leader among Central European states, showing almost zero inflation, and a growth rate in foreign direct investment. However, continuing reorientation of foreign trade increases the level of unemployment and the persistent current account deficit. In implementing the labour market policy, about 400 specific programmes were prepared for restraint of unemployment and improvement of vocational training of the labour market. Despite the Russian crisis, Lithuanian banks managed to raise their aggregate assets by 4.7% in the first quarter of 1999 compared to the first quarter of 1998. To avoid excess deficit, the government and the Board of the Bank of Lithuania by a joint resolution in July 1998 approved Measures for the Reduction of the Payment Balance Current Account Deficit.

On 9 June 1999, the Government approved the Medium-term Economic Strategy in the Context of Integration to the EU. The priorities, actions and measures aimed to prepare Lithuanian economy for becoming a part of the European Community economy are designed until the year 2005. By mid-1999, the creation of the legal framework and the main institutional infrastructure to implement and enforce the *acquis* was essentially completed in the Single Market area. The laws have been adopted - on Conformity Assessment, Competition, Small and Medium Enterprises, Copyright and Related Rights, Postal Service, on Amendments to the Law on Public Procurement, and on Amendments to the Law on Alcohol Control. Draft Laws on Enterprises and Investment have been submitted to the Seimas.

Since the last report to the Commission in 1998, sustained implementation of the remaining reform agenda has been continued. The restructuring of the Lithuanian economy was advanced by the removal of barriers to market entrance and exit, further reduction of direct state involvement, and further liberalisation of rules governing market transactions.

Improvements in the administration of bankruptcy procedures are further reducing barriers to the exit of non-competitive agents from the market. One of the recent moves in competition legislation area has been the amendment to the Enterprise Law submitted to the Seimas in June 1999, which provides for opportunities for foreign companies to open their subsidiaries in Lithuania. The adoption of the Law on Competition in

March 1999 is a significant step towards creating a competitive environment in line with EU rules.

An analysis of the possible economic effects of closing down the Ignalina Nuclear Power Plant on the functioning and development of the Lithuanian economy is being carried out. Though both EU and Lithuanian officials have often mentioned that a nuclear power plant as such cannot be considered as a formal obstacle to negotiating with the EU or to joining it, the necessity of presenting a strategy of the future of the Ignalina plant has been clearly demanded from the EU side. As it is clear from recent decisions, the first of two power blocs must be closed in 2005.

There is no secret that all the states of Central and Eastern Europe have to make a lot of improvements in quality of life and work on environmental problems. Transposition of the *acquis* in these sectors has been implemented without losing the acquired tempo. In October 1998, the Ministry of Environment adopted the Strategy for Approximation in the Environmental Sector (including strategies in different environmental sectors). The Strategy defines transposition priorities in each environmental sector, points out the main implementation measures and target dates; presents relevant cost estimates and provides for the need to reinforce the institutional infrastructure.

In the area of Justice and Home Affairs, the Governmental European Integration Commission established the Commission for Justice and Home Affairs (CJHA) as an analogue to the K-4 Committee in the Secretariat to the European Council with similar tasks. In order to ensure reliable control and security of Lithuanian state borders, progress has been made in technical as well as in political areas. Unlike other Baltic States, Lithuania completed totally and signed state border agreements with all its neighbours.

As it is also well known, Lithuania is managing its foreign policies well, keeping good relations with all of its neighbours. The good relations with Poland are among the best examples in the post-communist area. There are no significant problems dealing with transit issues in Russia. Lithuania is also playing a key role in maintaining the dialogue with Belarus and facilitating European efforts in it. Lithuania is continuing its active participation in the political dialogue with the

European Union. The bilateral EU-Lithuanian screening session in the CFSP concluded that policies pursued by Lithuania are in compliance with the CFSP acquis and that Lithuania has appropriate structures for the implementation of the CFSP. Therefore, all CFSP acquis can be implemented from the date of accession.

Negotiations with the World Trade Organisation have reached their final stage. Lithuania has committed itself to accept all the obligatory provisions of the WTO with no transitional periods as well as to accede to most bilateral and multilateral sectoral initiatives. Most of the provisions of the agreements, reached in the framework of the WTO, are applied de facto. In 1998, Lithuania was granted the status of observer in the Public Procurement Committee of the WTO.

Given the progress made during the last year, one can conclude that the country is ready by its achievements, will and possibilities to start accession negotiations in the year 2000.

Contributors

Stanislav Daskalov, Board of the European Institute, Sofia, former Minister of Foreign Affairs of the Republic of Bulgaria

Dipl. Ing. Ján Figel', State Secretary and Chief Negotiator for EU-Accession Negotiations, Ministry of Foreign Affairs of the Republic of Slovakia

Prof. Dr. Alexandru Ion Herlea, Minister for European Integration, Government of Romania

Iveta Sulca, Director, European Department, Ministry of Foreign Affairs of the Republic of Latvia

Dr. Egidijus Vareikis, Envoy Extraordinary and Minister Plenipotentiary, Ministry of Foreign Affairs of the Republic of Lithuania

Dr. Marcus Wenig, Coordinator, Research Group "EU-Accession", Center for European Integration Studies (ZEI), Germany

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Zentrum für Europäische Integrationsforschung
Center for European Integration Studies
Rheinische Friedrich-Wilhelms-Universität Bonn

Walter-Flex-Straße 3
D-53113 Bonn
Germany

Tel.: +49-228-73-1880
Fax: +49-228-73-1788
<http://www.zei.de>