

**Latvia's Contribution
to the Regular Report from the Commission
on Latvia's Progress towards Accession
(National Progress Report)**

June 2000

1.INTRODUCTION	3
1.1.PREFACE. THE CONTEXT OF THE PROGRESS REPORT	3
1.2.RELATIONS BETWEEN EU AND LATVIA.....	4
2.CRITERIA FOR MEMMBERSHIP	5
2.1.POLITICAL CRITERIA	5
2.1.1. Introduction	5
2.1.2.Democracy and Rule of Law	6
Parliament	6
The Executive.....	6
Anti-corruption measures.....	8
Judicial system.....	9
2.1.3.Human rights and protection of minorities.....	10
Civil and Political Rights.....	10
Economic, Social and Cultural Rights.....	10
Minority Rights and Protection of Minorities.....	11
2.2.ECONOMIC CRITERIA.....	12
2.2.1.Introduction.....	12
2.2.2.Economic developments 1999 / 2000.....	12
Macroeconomic developments.....	12
Structural reforms.....	14
2.2.3.Assessment in terms of the Copenhagen criteria.....	16
The existence of a functioning market economy	16
The capacity to cope with competitive pressure and market forces.....	17
2.3. OBLIGATIONS OF MEMBERSHIP	19
1. Free movement of goods	19
2. Free movement of persons	20
3. Freedom to provide services	22
4. Free movement of capital.....	24
5. Company law.....	24
6. Competition policy.....	26
7. Agriculture	27
8. Fisheries.....	31
9. Transport policy.....	33
10. Taxation	35
11. Economic and monetary union	36
12.Statistics	37
13. Social policy and employment.....	38
14. Energy.....	41
15. Industrial policy.....	42
16. Small and medium-sized undertakings.....	42
17. Science and research	43
18. Education and training.....	44
19. Telecommunications and information technologies.....	45
20. Culture and audio-visual policy.....	47
21. Regional policy and co-ordination of structural instruments	48
22. Environment.....	49
23. Consumers and health protection	54
24. Justice and Home Affairs	55
25. Customs union.....	58
26. External relations.....	59
27. Common Foreign and Security Policy	60
28. Financial control.....	60
3.ACESSION PARTNERSHIP AND NPAA	62
ANNEX 1. INFORMATION ON TRANSPOSITION OF LEGISLATION.....	68

1. INTRODUCTION

1.1. PREFACE. THE CONTEXT OF THE PROGRESS REPORT

The Government has set the year 2003 as an internal target date for Latvia's readiness for EU membership. The Europe Agreement, guidelines of the Accession Partnership and the Regular Reports, provide an effective framework to further streamline preparations for EU membership. The principal priorities of the Government – integration of society, public administration, economic and regional policy are directed towards the implementation of EU requirements.

In February 2000 the Strategy for European Integration was adopted by Parliament. The main objective of the Strategy is to facilitate integration into the EU by shaping common actions and understanding. The revised National Programme for Integration into the European Union (NPIEU), which provides a single framework for planning, prioritising and monitoring the accession process was adopted in May 2000. The NPIEU ensures a link between planning of the State budget and EU integration activities.

In April 2000 the Government led by Prime Minister Mr Andris Šķēle resigned. A new Government headed by the former Mayor of Rīga Mr Andris Bērziņš, who represents the liberal party “Latvijas Ceļš”, was appointed in May. However, it did not change in any way the overall political spectrum and the main priority of the new government remained the country's integration into the European Union, thus proving political continuity between successive governments.

Latvia complies with the Copenhagen political criteria. The shaping of a strong and integrated society remains one of the main political priorities of the Government. In December 1999 the Parliament adopted the “State Language Law” which is in full compliance with international obligations. The Law and the nine Regulations for its implementation, all of which have been discussed with OSCE and Council of Europe experts, will come into force in September 2000. In May 2000 the Government adopted a revised condensed version of the National Programme “*The Integration of Society in Latvia.*” The second phase of the “*National Programme for Latvian Language Training*” is being implemented effectively. The Government has allocated 600 000 LVL in the State budget for 2000 to provide additional payment for Latvian language and bilingual teachers.

Macroeconomic and financial stability was successfully maintained. GDP growth in 1999 was 0.1% (3.9%-1998), inflation fell to 2.4% (4.7%-1998) and unemployment was reduced to 9.1% (9.2%-1998). Growth of cumulative FDI reached 24% in 1999. Current account deficit fell to 10.2% (11% - 1998). In April 2000, Moody's announced no changes to the previously awarded rating Baa2 for long term liabilities, thereby supporting international investor confidence. SMEs dominate in the major export industries and generate more than 50% of GDP. Banks increasingly play the role of financial intermediaries. In 1999, the amount of deposits increased by 24%, thus increasing the capacity of the financial sector to channel savings to productive investment. The Land Book reform is continuing, approximately 74% of land is registered in the Land Book.

Latvia continues strengthening of the State Eastern Border by developing modern communication networks, improving mobility, building a new border posts and raising the qualifications of border guards. Special attention has been focused on implementation of concrete anti-corruption measures, joining international anti-corruption instruments, prevention of corruption in public institutions, improvement of the organisational structures against organised crime. Judicial training is a priority,

the status of judges has been improved, computerisation of courts continues. The provisions of the new asylum legislation and visa legislation correspond to EU requirements.

Public administration policy has been realised since 1995 when the institutions responsible for reform were established. Public administration policy co-ordination is ensured at national, regional and local levels. This year efforts have been made to consolidate the civil service – adoption of the new law “On State Civil Service” which will replace “Law on Civil Service”(1994), establishment of a career planing system, implementation of a broad-banded remuneration system and strengthening of administrative structures. Elaboration of internal and external audit systems is continuing.

Latvia is aware that only enforcement capacity can demonstrate real ability of a country to fully align with any EU policy. Now the main priority is to ensure efficient implementation of the adopted legislation. Thus, evaluation of administrative capacity in the sectors has been emphasised by providing information about the responsible institution, its functions, number of employees and cases.

In particular, all internal market legislation is in place. Significant progress has been made in the areas of data protection, company law, free movement of capital and free movement of services.

Many efforts have been made to facilitate completion of regional reform. In April 2000 the Government decided on the formation of 5 planning regions at NUTS 3 level to be prepared to absorb Community cohesion and structural funds. Development strategies for Zemgale, Latgale and Riga as well as strategic priorities of development of the Vidzeme planning region were approved. The formation of regional development agencies is ongoing – Latgale, Zemgale and Vidzeme Development Agencies have been established and formation of the agencies is to be completed by June 2001.

Translation and Terminology Centre (established in 1996) serves as co-ordinator of *acquis* translation, as well as supports the ministries with terminology development and translation methodology. In 1999 and 2000, thanks to PHARE support, the TTC’s translation capacity was up to 13 000 standard pages per year. 14 365 Official Journal pages were translated in to Latvian in 1999.

1.2.RELATIONS BETWEEN EU AND LATVIA

Developments under the EU-Latvia Europe Agreement. The Europe Agreement framework provides an effective means for Latvia to prepare for EU membership. As it was envisaged, Latvia successfully fulfilled its commitments under the Agreement and transitional periods in areas such as intellectual and industrial property rights (Article 67.3), public procurement (Article 68), establishment (Articles 44 and 51) and state aid (Article 64 (a)) expired at the end of 1999.

The Joint Parliamentary Committee comprising representatives of the Latvian and European Parliament met in Brussels on 31 January 2000.

The third meeting of the Latvia – EU Association Council took place in Brussels on 15 February 2000. The third meeting of the Latvia – EU Association Committee took place in Brussels on 16 June 2000.

The Association Council and Association Committee welcomed substantial progress made by

Latvia in preparations for accession, especially the successful addressing short-term Accession Partnership priorities, in particular in areas such as internal market, transport, employment and social policy and environment.

Bilateral trade between Latvia and EU continued to expand. During 1999 exports to the EU accounted for 62.5% (56.6%-1998) of total exports. Imports from the EU amounted to 54.5% (55.3%-1998) of total imports.

Trade with agricultural products. The safeguard measures on import of swine meat introduced on 17 December 1999 were abolished in June 2000.

Trade negotiations between the Commission and Latvia on new reciprocal agricultural concessions were held on 8 May 2000 in Rīga. Trade negotiations were undertaken on the basis of Article 20(4) of the Europe Agreement and both parties agreed to an immediate and full liberalisation of trade with most agricultural products, keeping tariff quotas for some of them. The agreement comes into force on 1 July 2000.

PECA. Latvia was one of the first among candidate states to start negotiations on the Protocol of European Conformity Assessment. The framework Protocol and two first sectoral annexes have been prepared for signature.

Accession Negotiations. Following to the Helsinki European Council decisions of December 1999, the official accession negotiations with Latvia started on 15 February 2000, and on 28 March 8 chapters – Competition policy, Statistics, SMU's, Science and research, Education and training, Culture and audio-visual policy, External relations and CFSP - were opened. The 2nd meeting of the Chief-negotiators took place in Brussels on 25 May 2000, and the 2nd ministerial meeting took place in Luxembourg on 14 June 2000, when 5 chapters were provisionally closed.

Pre-Accession aid. In 1999 – 2000 PHARE remains the main instrument providing financial assistance to the implementation of Latvia's pre-accession strategy. In the second part of 1999 Latvia started programming of PHARE 2000. This funding will be available from January 2001. During the above-mentioned period several programming missions in Rīga and Brussels have taken place. Projects submitted cover the areas of social integration, justice and home affairs, regional policy, statistics, fisheries, public administration reform, public expenditure management and national quality management.

Twinning. Latvia highly appreciates the EC decision to introduce the twinning instrument in order to build-up and strengthen administrative capacity. In 1999 Latvia entered into 9 twinning projects with overall funding of Euro 5 495 000. These projects mainly cover agriculture, environment, regional policy and justice and home affairs.

2.CRITERIA FOR MEMMBERSHIP

2.1.POLITICAL CRITERIA

2.1.1. Introduction

As the European Commission has confirmed Latvia's overall compliance with the political criteria, all Government's efforts are now concentrated on the integration of society, on strengthening the administrative capacity, and on the attainment of compliance with the EU *acquis* and practices in

the area of justice and home affairs. In the area of integration of society, the Government has the following priorities: (1) adoption of Regulations for the implementation of the “*State Language Law*” in accordance with the letter and spirit of the Law which fully complies with Latvia’s international obligations; (2) guaranteeing the possibilities for the national minorities to learn the Latvian language; (3) maintenance of the preconditions for successful naturalisation of non-citizens.

2.1.2. Democracy and Rule of Law

Parliament

All six parties elected to Parliament in 1998 have announced their full support for Latvia’s integration into the European Union. All parties are also represented in the European Affairs Committee of the Parliament, thus ensuring consensus in the adoption of laws and decisions crucial for Latvia’s integration into the EU. The Committee plays an active role in supporting Latvia’s integration into the EU by: (1) adjusting the draft legislation with the EU *acquis*; (2) participating in formulation and confirmation of Latvia’s negotiating positions; (3) establishing co-operation with the European Parliament and the Parliaments of the EU Member States. The work of the Committee is co-ordinated with that of the Parliament’s Legal Office, the European Integration Bureau, and the Ministry of Foreign Affairs. The Parliament adopted the “*Strategy for the Integration into the European Union*” in February 2000.

The Committee initiates and co-ordinates EU-specific and draft legislation-specific training programmes for members of parliament, staff members of Parliamentary committees and lawyers, using PHARE and TAIEX resources or the bilateral assistance of the EU Member States.

Support of the PHARE assistance programme allowed the creation of a Parliament EU Information Centre in late 1997. The official status of the Centre was recognised by the chair and deputy chairs of the Parliament in June 2000. The centre publishes a weekly newsletter “*Eiroziņas*” (Euronews) since 1998.

The Executive

Public administration reform has been ongoing since 1995 and is based on *The Concept of the Latvian State Public Administration Reform* (1995), *The Implementation Plan of the Development Strategy for the Public Administration Reform up to year 2000* (1998). *A Medium-term Strategy of Public Administration Reform* is under preparation. It is expected that the Government will adopt the Strategy by October 2000.

In May 1999 the Minister for Special Assignment on Public Administration and Local Government Reform was appointed in order to accelerate reform of public administration. In January 2000, the Bureau of Public Administration Reform and the Secretariat of the Minister for Special Assignment on Public Administration and Local Government Reform were merged, thus creating a single institution – Secretariat of Public Administration Reform, responsible for public administration at national, regional and local level.

The new Government, approved in May 2000, continues the same line of previous governments and has declared public administration reform as the main priority in the Government’s Declaration.

Legal framework. The Parliament accepted in the 1st reading the draft “*Framework Law on Public Administration*”¹ in May 2000. The law defines the status of public institutions, differences among the subordinated and supervised public institutions and institutions under management of a ministry, and common principles for the work of public institutions.

*Concept on State Agencies*² (February 2000) provides for the transformation of existing state non-profit organisations, limited liability companies and joint stock companies into the public agencies hence assuring adequate transparency and control of expenditure of state funds. In May 2000 the Parliament in the 1st reading accepted the draft law “*On State Agencies*”. The law defines the legal status of state agency, order of establishment, financial management system, and the principles of functioning, supervision and accountability.

Civil service reform. The draft law “*On State Civil Service*”³ passed the 2nd reading in Parliament in May 2000. Compared with the “*Law on Civil Service*”, the new law contains provisions, such as compulsory performance appraisals of civil servants, regulation on elimination of conflict of interest, basis for the remuneration system of civil servants. Latvia has shared its experience in drafting civil service legislation with other CE European countries.

In January 2000 7814 civil servants and civil servant candidates were employed in the 261 public administration institutions. In May 1999, the civil servant qualification examinations started. In October 1999, 7758 civil servants and civil servant candidates worked only for the central administration, 328 of those being civil servants. By mid-June 2000, the status of civil servant was assigned to 626 civil servant candidates. Due to the reorganisation in the Land Service, about 600 civil servants have acquired a specialised service status, thus leaving the number of civil servant candidates and civil servants employed in central administration at 6793. At the same time the specialised services covered by special laws comprise 23502 officials, including State police (9565), the State Revenue Service (4528), the State Border Guards (3114), the Prison Administration (2181), the Citizenship and Migration Administration (797).

Personnel policy. To improve personnel management in public administration, the Civil Service Administration (CSA) has adopted a *Strategy for Development of Personnel Management* (November 1999) and its implementation plan. The aim of the *Strategy* is to introduce a unified personnel management system into the public service. The most important activity envisaged by the *Strategy* is the development of performance appraisal procedure and its implementation. Performance appraisal of public servants will support both the pay system and implementation of the new “*Law on Civil Service*”. In the framework of implementation of the *Strategy*, the CSA issues methodical and informative documents and organises seminars. The draft “*Law on State Civil Service*” envisages elaboration and implementation of a unified career planning system by making use of the unified information system, containing data on the public administration bodies, their functions and personnel. CSA will have elaborated the guidelines for career planning by the end of 2000.

Reform of the salary system. In January 2000 the Government adopted the *Concept of a Broad-Banded Remuneration System for Public Servants*. The concept envisages the elaboration of the salary system in which, within the limits of State budget, the salary of each official will depend on educational requirements and level of responsibility set for the position, as well as the official’s work quality and results, at the same time bringing the scale of salaries in public administration closer to the salaries in the private sector. It is planned that the Ministry of Finance will elaborate draft Regulations “*On Broad-banded Remuneration System in Institutions Financed from State Budget*” by December 2000. The CSA has drafted Regulations “*On Generic Job Descriptions of Public Administration Officials and Order of Elaboration of Job Descriptions*” which enables the comparison of job weightings across the public administration, which is required for the elaboration of salary system.

Training in European Union Affairs. In September 1999 by the decision of the European Integration Council a *Training Strategy of Latvian Public Administration Officials on EU Issues*

was approved. The Latvian School of Public Administration (LSPA) is responsible for the implementation of the compulsory training of civil servants in core EU issues, as well as specialised training. By May 2000 a total of 2320 persons (including 857 persons during 2000) had completed LSPA compulsory courses on the main EU issues. It has been decided to include the requirement of basic knowledge on EU in job descriptions, as well as to elaborate a public administration-wide training plan on EU issues.

New training programmes for civil servants. A training programme for civil servants on administrative procedures will be launched in September 2000. Its aim is to strengthen the knowledge and skills of civil servants in implementation of public law and observance of due procedures, as well as prepare the administration for the implementation of the “*Law on Administrative Procedures*”, currently being debated in Parliament. Training programmes *On Civil Service Ethics* and *On Conflict of Interest in public office*, which are aimed at facilitating awareness of ethical standards and fostering integrity in the civil service, are to be launched during the year 2000.

Functional reviews. Notable achievements should be highlighted with regard to a sectoral approach to improvement of administrative capacity and implementation of the *acquis*. As a result of the review of functions and structures of the Ministry of Agriculture in 1999, the Rural Development Support Agency has been established, regional agricultural departments have been consolidated and the structure of the Ministry of Agriculture was strengthened. The improved efficiency has resulted in the undertaking of new functions without an increase in staffing levels. Functional reviews have been completed in the Ministry of Education and Science (November, 1999), the Ministry of Welfare (December, 1999), Ministry of Economy (May, 2000) and the Ministry of Justice (May, 2000).

Improvement Programme for Inspections. *The Programme for Improvement of Work of Inspections*⁴, aimed at improving the business environment and functioning of state inspections, has been prepared. Since the start of the programme in April 2000, the Co-ordinating Council monitors the implementation of the *Programme*.

Anti-corruption measures.

The seriousness of the problem is recognized at highest political level. The policy, legal and institutional framework is in place (i.e. Corruption Prevention Council) since 1997. In 1999, the number of persons sentenced for passive bribery increased twice comparing with 1998.

International anti-corruption instruments. The Criminal Law Convention on Corruption of the Council of Europe was prepared for ratification. The Government accepted decision to join the Group of States against Corruption (GRECO) in March this year. It is planned to sign by the end of 2000 the OECD Convention on Combating Bribery of Foreign Public Officials in International Business transactions.

The Government in March this year adopted the revised Corruption Prevention Programme (based on the same principle -prevention, repression, and education - as the previous programme). The central task of the Programme is improvement of legislation and strengthening of the institutional framework. Most of the activities in the Programme will be implemented till the end of 2000. The implementation of the Programme is ensured by the Corruption Prevention Council. The Secretariat to the Council was established in December 1999 to secure implementation.

The law “*On the Protection of Data of Natural Persons*” was adopted in March 2000 in order to develop a basis for effective and secure system of natural persons’ data protection. The Regulation on design of courts has been adopted by the Minister of Justice in order to separate public sector

from justice sector. Furthermore, a Regulation on assignment of judges has been adopted to handle court cases. The Government has accepted the law “*On Executive Agencies*”, amended law “*On Procurement of State and Municipalities*” providing that state contract award is published in Internet.

Strengthening of administrative capacity. The concrete measures to prevent corruption in public bodies have taken place. The Action Plan on Prevention of Corruption in the State Revenue Service is being implemented. Following the amendments to the law “*On the State Police*” since this year the State Police do not charge a penalty at the place where the offence has been taken place.

At the beginning of 2000, the special unit in the Security police has been established to fight against corruption in law enforcement agencies.

In order to improve co-operation between agencies in fight against corruption the PHARE project “Development of Inter Ministerial co-operation for the prevention of corruption in Government Institutions” has been prepared.

Last year there were registered 185 crimes committed during the service in state institutions including 43 passive bribery cases, 15 active bribery cases. In 1999 23 persons were sentenced for passive bribery and 9 persons were sentenced for active bribery. The number of persons sentenced for passive bribery increased twice in 1999 comparing with 1998.

Public awareness. The Public relations unit in the Ministry of Justice was strengthened to raise efficiency of information of society on corruption issues in the beginning of this year.

The non-governmental organisation “Delna”, which is a local unit of International anti-corruption organisation “Transparency International” is taking an active role to involve the society in prevention of corruption and to promote transparency in public bodies.

The implementation of the PHARE project ‘*Programme for Anti-Corruption Legislation, Education and Information*’ has been started with the aim to enhance corruption prevention activity through improved legal basis and to support government’s activities to raise public awareness of their rights and enhancement of the public involvement in anti-corruption problems.

Judicial system.

A number of important legislative acts are being prepared in order to upgrade the judiciary. To improve the independence of judiciary and to raise efficiency of the court system a new law “On Judicial Power” is being drafted within the PHARE Twinning project “On reform of the Judicial System”.

The law “*On Sworn Court Bailiffs*” has been elaborated in order to shorten the procedure of execution of court judgements. It is planned that this Law and the “*Amendments to the Civil Procedure Law*” will enter into force by the end of this year.

In April 2000, the concept “*On the reform of the institute of lay-judges*” was submitted to the Government. This will simplify court proceedings and ensure proper implementation of the law “*On judicial power*”. It is planned to accomplish this reform by the end of this year.

To conduct a criminal procedure compliant with the standards of EU and the European Convention on Human Rights, a new law “*On Criminal Procedure*” is being drafted with the assistance of Finland, Sweden and Germany.

In May 2000, the Ministry of Justice (MoJ) completed the project “Functional Review of the MoJ” financed by the World Bank. Sweden and the UK provided the expertise. In January 2000, a

Division of Legislation Methodology was established within the MoJ (in total 3 persons).

In March 2000, the MoJ adopted *Guidelines for the Maintenance of Court Buildings*, which are aimed at preventing opportunities for corruption.

In order to improve the system of court administration, a research study on *Support to the development of the court administration* was launched within the MoJ in co-operation with Sweden. The aim is to establish an independent body to administrate courts.

The court computerisation project continues. The funding for the project is provided by the State Investment Programme and the PHARE Twinning project *Court System Reform*. Currently appropriate equipment is set up in all five Regional Courts and three District Courts. Training courses for improving the computer skills of judges continues. The project will last until December 2001.

The Judicial Training Centre (JTC) provides training courses for judges, court personnel and representatives of other legal professions associated with the judiciary. The JTC has elaborated three-year educational plan. This year LVL 40 000 were allocated to the JTC. The basic model is to provide two-week training courses for each judge every year. 5 classes out of 20 weekly are devoted to matters concerning European and international legislation.

2.1.3. Human rights and protection of minorities

The Government adopted the Framework Document of the National Programme “*The Integration of Society in Latvia*” in December 1999 to support the formation of a democratic civil society. In May 2000 the Government adopted the revised condensed version of the Programme.

Implementation of the PHARE 2000 project “*Promotion of Integration of Society in Latvia*” will promote civic participation and political integration; social and regional integration; integration of society in the fields of education, language and culture; raising public awareness. Implementation of this project will allow the use of the results of scientific research for the promotion of the integration of society.

Civil and Political Rights.

Since 1 January 2000 Latvia's prison system is administered by the Ministry of Justice (it was administered by the Ministry of Interior before). As a result of a far-reaching prison reform, cases of tuberculosis decreased from 536 to 361 in 1999. DOTS (Directly observed therapy, short- course) programme is being introduced in prisons.

The Government has allocated LVL 500 000 for the construction of a new prison in *Olaine*. Special attention is being paid to the observance of sanitary and hygienic norms. The new prison will allow a decrease in the density and morbidity of prisoners in the existing prisons.

Economic, Social and Cultural Rights.

In March 2000 the Parliament ratified the European Convention “On the Adoption of Children.”

In September 1999 Latvia signed the European Convention “On the Legal Status of Children Born Out of Wedlock.”

In October 1999 Latvia signed the European Convention “*On Recognition and Enforcement of Decisions Concerning Custody and Restoration of Custody of Children.*”

The Zero Report on the compliance of legislation with the European Social Charter has been

compiled and sent to the Council of Europe. Now Latvia is proceeding with the process of ratification of the European Social Charter.

In order to ensure realisation of qualitative psychiatric assistance corresponding with requirements of the World Health Organisation, the *Strategy for Psychiatric Assistance 2000-2003* has been elaborated. The Minister of Welfare will approve the Strategy by August 2000.

The draft law "*On Psychiatric Assistance*" will be submitted to the Government by the end of 2000. The proposed date of adoption is May 2001. The law is aimed at ensuring observance of human rights of persons with special needs. It will define basic principles of provision and receipt of psychiatric assistance and rights and obligations of the people providing and receiving the said assistance.

Minority Rights and Protection of Minorities.

Latvia acceded (09.1999) to the 1954 UN Convention Relating to the status of Stateless Persons.

The naturalisation procedure. The number of applications received in 1999 (a total of 15 179) exceeded the average received in 1995 - 1997 by more than four times. The total number of persons granted citizenship since 1995 is 30 780 (5375 persons were granted citizenship in January to May 2000 alone). The capacity of the Naturalisation Board allows dealing with all applications without queues and delays.

Since the naturalisation fee for several groups of applicants is reduced, only 65% applicants pay the full fee (5% are exempted from the fee; 5% pay a reduced fee, usually 3 LVL; 24% pay a half fee, 15 LVL).

Passports for non-citizens. In March 2000 the Parliament amended the law "*On the Status of the former USSR Citizens who are not Citizens of Latvia or any other State.*" These amendments allow eligible non-citizens to change their old Soviet passports for Latvian non-citizens' passports after the deadline of 31 March 2000 (changing of passports was started three years before this date, in April 1997). Persons exchanging their passports after this deadline may be charged with an administrative penalty starting from a notice (warning) to a fine up to 25 LVL, depending on the reason for delay. 7% of non-citizens have not exchanged their passports yet. The administrative capacity of the Department of Citizenship and Migration Affairs is adequate therefore queues are not expected.

Integration of Minorities. In December 1999 the Parliament adopted the "State Language Law" which is in full compliance with Latvia's international obligations. The Law will come into force in September 2000. The Government has prepared 9 draft Regulations for the implementation of the Language Law in accordance with the letter and spirit of the adopted Law, which strictly limits state interference in the private sphere. All of the Regulations have been discussed with OSCE and Council of Europe experts.

To ensure competitiveness of graduates of schools with Russian language of instruction, the Government has allocated 600 000LVL in the State budget for 2000 to provide additional payment for Latvian language and bilingual teachers.

The second 2-year phase of the "National Programme for Latvian Language Training" was started in 1998. During this phase Latvian language training has been significantly expanded – some 15 000 persons attended Latvian language courses in 1999 alone. In 1999 302 LAT2 courses took place for minorities teachers in which 7207 teachers were prepared. Furthermore, 17 teaching books and

teaching aids, 3 methodological aids and 6 audio aid sets were issued. EU PHARE is the largest single contributor to this multi – donor programme.

More than 15 Regulations for the implementation of the 1998 law “*On Education*” have been adopted by the Government. The Ministry of Education and Science continues to draft new Regulations providing for the standards of education and standards of financing of the education programmes.

In June 1999 the Parliament adopted the law “*On General Education*”, strengthening the status of minority education in the general education system. In September 1999 implementation of minority education programmes was started in the minorities educational establishments, which could choose one or more models from the minorities education programmes.

2.2.ECONOMIC CRITERIA

2.2.1.Introduction

Achieving macroeconomic stability and ensuring economic growth are important tasks for the government in order to promote further sustainable economic development in the country and thereby diminish the gap between Latvia's economic development and that of the EU. The economic policies of the government are geared towards accession to the EU and provide a positive impetus for economic development, irrespective of the time of accession. Latvia has succeeded in filling up the remaining gaps in the regulatory and supervisory framework, as well as in the financial sector and simplification of the legal environment for enterprises.

2.2.2.Economic developments 1999 / 2000

Latvian economy succeeded in containing the adverse impact exerted by a number of external shocks. Strict monetary and fiscal policies implemented by authorities, successful structural reforms as well as measures to strengthen the market principles governing the economy were key factors in promoting the macroeconomic stability and fighting the consequences of the Russian crisis. The economy began to revive in the end of 1999 and reported strong growth in the beginning of 2000.

The economic growth was fostered mainly by growth of private consumption. Domestic lending has been also increasing and foreign direct investments (FDI) have been constantly flowing into Latvia. The Latvian government pursued prudent fiscal policy that allowed containing the fiscal deficit. Inflation has been gradually converging to the EU average inflation level. Monetary policy was mostly focused on maintaining the fixed peg to the Special Drawing Rights basket of currencies. The current account deficit decreased as a result of general contraction of foreign trade. It was covered by substantial surplus in the capital and financial account. The banking sector completely recovered after the adverse influence exerted by the Russian crisis and returned to profitability. 1999 was also successful for non-bank financial institutions, in particular, insurance companies. International credit rating agencies *Moody's*, *Fitch IBCA* and *Standard&Poor's* evaluated investment environment in Latvia as propitious.

Macroeconomic developments

Despite considerable influence of the Russian crisis on the 1999 economic performance, Latvia managed to maintain the level of Gross Domestic Product (GDP) similar to that of 1998 (total growth in real terms amounted to 0.1%). Successful development of such sectors as real estate, renting and other business activities (annual growth of 17.8%), wholesale and retail trade, repair of automobile and motorcycle, personal goods and household goods sector (increase by 10.4%), construction (increase by 8.1%) was decisive in preserving the 1999 GDP at the 1998 level. In the

1st quarter of 2000 strong GDP growth of 5.3% is reported.

The level of inflation in Latvia has been permanently diminishing. It is one of the lowest among Central and Eastern European states. CPI grew only by 2.4% in 1999. In the first quarter of 2000 as compared to the same period of 1999, the CPI increased by 1.7%. Though in 1999 producer price index decreased by 4%, in the second half of the year and in the first quarter of 2000 small growth of PPI was registered that is characteristic to overall growth of economic activity in the country.

The exchange rate stability of the national currency has been preserved; the amount of LVL in circulation is fully backed by foreign currency reserves and gold. Coverage of reserve money with foreign reserves at the end of April 2000 equalled to 3.6 months' value of imports of goods and non-factorial services.

Continued increase of investment has in part been facilitated by improved structural conditions for domestic lending, especially by simplified legal and regulatory environment of business in the economy. In the first quarter of 2000 bank lending grew by 4.7%, reaching the amount of 17.9% of GDP (15.8% in 1998) and 80% of total loans are issued to residents. 66% of total lending are medium- or long-term loans; loans constitute 42% of banks' total assets.

In 1999, general government fiscal deficit amounted to 3.9% of GDP. Favourable economic developments and improvement of tax administration allowed the Parliament to adopt Budget 2000 envisaging only a 1.9% deficit. The government, however, is committed to keep strict fiscal policy (to restrain the budget deficit at 0.5% of GDP) over the medium term.

State debt increased by LVL 152.2 million. Thus the total state debt reached 13.9% of GDP in 1999. It was connected with the necessity to finance the state budget fiscal deficit, investment projects, loans from the state basic budget to budgets of other levels as well as to maintain financial liquidity. Qualitatively, the internal debt grew due to issuing short-term bonds, the external one due to issuing eurobonds.

The amount of state investment is being gradually increased putting emphasis on development of infrastructure. In 1999, total resources formed by the Public Investment Programme, state budget loans guaranteed by the state and other sources amounted to 4.5% of GDP (in 1998 – 2.9%, in 1997 – 2.7%). In 2000, further growth of the amount of public investment is expected, thus reaching 5.3% of GDP.

Money supply in Latvia continued expanding broad money M2X grew by 8.0% during 1999. The growth rate of broad money rose by 2.1 percentage points in 1999 compared with 1998. In the first half of the year, broad money increased more rapidly (by 5.2%; the monthly average increase of 0.9%) than in the second half when, due to growing demand for foreign currencies and the interventions by the Bank of Latvia in the foreign exchange market, the increase was not so rapid (2.7%; the monthly average increase of 0.5%). The increased money supply was caused by the mounting economic activity, seasonal factors, and high year-end money demand, which rose because banks increased their liquid assets in preparation for increased demand for cash during the Year 2000 rollover period. Growth in broad money was also promoted by the growing private persons' demand for cash as well as bank loans, which increased as banks placed funds attracted outside Latvia in the domestic market.

Latvia: Main economic trends		1995	1996	1997	1998	1999
Real GDP growth rate	<i>per cent</i>	-0.8	3.3	8.6	3.9	0.1
Inflation rate						
Annual average	<i>per cent</i>	25.0	17.6	8.4	4.7	2.4
December-on-December	<i>per cent</i>	23.1	13.1	7.0	2.8	3.2

National Progress Report

Unemployment rate, end year						
ILO definition	<i>per cent</i>	18.9	18.3	14.8	14.0	14.4
Registered	<i>per cent</i>	6.6	7.2	7.0	9.2	9.1
General government budget balance	<i>per cent of GDP</i>	-3.4	-1.4	1.2	0.1	-4.0
Current account balance	<i>per cent of GDP</i>	-0.4	-5.5	-6.1		-10.2
	<i>billion ECU</i>	0.0	-0.2		-10.6	
				-0.3	-0.6	
Foreign debt						
Debt/export ratio	<i>per cent</i>	19.6	15.8	13.1	12.6	21.0
Gross foreign debt	<i>billion ECU</i>	0.33	0.35	0.33	0.35	0.6***
Foreign direct investment						
Net inflow according to balance of	<i>per cent of GDP</i>	5.5	7.4	9.2	5.0	5.8
Payment data	<i>million ECU</i>	198.5	321.4	245	471	363.5***

*Data from the State Treasury

**ECU=LVL 0.662

*** EUR=LVL 0.588 (01.01.2000)

The Government closely monitors trade and current account balance. In 1999, the current account deficit achieved LVL 372 millions (LVL 153 millions in the fourth quarter) that is 10.2% of GDP (in 1998 – 10.6%). Positive tendencies of 1999 allow anticipating improvement of trade balance and, consequently, the current account balance. Also external reserves of the Bank of Latvia are growing.

By June 2000 official unemployment rate was 8.6%.

Structural reforms

Overall, active privatisation has been successfully completed in Latvia. Within nearly eight years, 97% of all state owned enterprises and companies have been designated for privatisation, more than 1500 privatisation agreements have been concluded. The ultimate task of the Government is take care of the interests of the state and consumers and, inter alia, prevent establishment of uncontrolled private monopolies.

As a result of privatisation in 1999, pursuant to purchase agreements, the purchasers assumed liabilities in the amount of 3.39 million LVL. The purchase agreements stipulated retention of 1757 jobs. In 1999 the private sector accounted for 66% of the GDP, and 70% of the economically active inhabitants were employed in the private sector in Latvia. In such sectors as industry, agriculture, fishing, construction, and trade, the share of private companies exceeded 90% of the GDP. As a result of privatisation of the remaining state share (5.9%) of “Latvijas Unibanka” and private investment in “Krājbanka”, state participation decreased to 3.7% of banks' total share capital. The maturity of privatisation certificates expires in 2000.

Now only three large companies – *Latvenergo*, *Latvijas kuģniecība* and *Lattelekom* (more than 500 employees) belong to public sector; they are all in the infrastructure or utilities sectors and completion of their privatisation is planned by the end of 2000.

Restructuring and privatisation of *Latvenergo* is closely linked with market liberalisation. The Government has already opened the electricity market to qualified customers, including the right to directly negotiate importation of electricity. The grid code was approved in May 2000 and the establishment of power transmission system operator and is in progress. Thus conditions of non-discriminatory access to the electricity grid will be created for generators, consumers and traders.

The Government passed a decision in April 2000 stipulating that internationally acknowledged investment banks shall be involved in the privatisation of *Latvian Shipping Company*. After the failure to attract an investor during previous rounds of privatisation, the Government intends to ensure successful privatisation and at least attraction of a strategic investor in 2000, pursuant to the

best international practice. The Government has also made a firm a commitment to privatise the company by applying the methods acknowledged in an international practice and aimed at the company's development. Pursuing this decision the Latvian Privatisation Agency in May 2000 announced international tender for reputed financial advisors for privatisation of *Latvian Shipping Company*.

The Parliament is reviewing a new "*Law on Telecommunications*", stipulating the reduction of *Lattelekom* monopoly period from the year 2013 to the year 2003. To ensure this move, in March 2000 the Government authorised the Latvian Privatisation Agency to conduct negotiations with the private shareholder of *Lattelekom* – *Tilts Communications*, co-owned by *Sonera* and *IFC*, about the review of the Umbrella Agreement which was concluded in 1994, and the compensation for the reduction of *Lattelekom* monopoly period. Privatisation of the state owned equity holding of *Lattelekom* highly depends on the outcome of the above negotiations.

Investment plays an important role in the process of restructuring the economy. In 1999, the volume of foreign direct investment amounted to 6% of GDP (the same in 1998). The major share of the 1999 investment inflow was injected in industry and transport. The European Union is a major contributor of FDI in Latvia.

The largest recipient of FDI has been the transport and communications sector, which has accumulated 25% of the total stock of FDI. The manufacturing and financial sectors are two other major recipients of investment (with 20% and 19% of the total stock). In manufacturing, the processing and chemical sub-sectors attracted most of the foreign direct investment.

Consolidation process is going on in the banking sector. Two mergers and two closures took place in 1999, thus reducing the total number of banks in Latvia to 24. Of them, 6 banks are subsidiaries of foreign banks (owning 40% of total assets in the banking sector) and 1 – a branch of a foreign bank.

Rehabilitation of Riga Commercial Bank (*Rīgas Komerbanka*) has been successfully completed. The bank restarted operation in October 1999. Now it is named The First Latvian Commercial Bank (*Pirmā Latvijas Komerbanka*). In May 2000, a contract on selling this bank to "*Norddeutsche Landesbank*" was signed.

Growing assets of commercial banks in 1999 proves revitalisation of the sector after the Russian crisis. In 1999, the amount of deposits increased by 24% increasing the capacity of financial sector to channel savings to productive investment – volume of credits by commercial banks grew by 16%. Total audited profit of the banking sector amounted to LVL 12.5 million in 1999.

From January 1, 2000 higher capital requirements for banks were introduced (EUR 5 million). All banks comply with the requirements. During 1999 Scandinavian banks increased their equity investment in Latvia. Overall, non-residents own 62% of the total share capital of the banking sector.

The expansion of the financial sector extends to non-bank financial institutions, especially leasing and insurance companies. In 1999, the volume of insurance premiums increased by 8.6% compared to 1998. The real increase of insurance premiums was 6.2%. In 1999 the share of insurance premiums in the GDP of Latvia was 2.57% (2.47% in 1998).

Securities market turnover in 1999 achieved LVL 2.3 milliard. Though the 1998 turnover was a little bit higher, growing tendencies of the second half of 1999 and the first quarter of 2000 compensate sluggish turnover of the first half of 1999. At the end of 1999, shares of more than 70 enterprises were quoted at the Riga Stock Exchange. By the end 1999 total capitalisation of the Riga Stock Exchange reached EUR 884 million or 14.2% of GDP, which is 3.3% higher comparing with

capitalisation of 1998 (at the end of 1998 – EUR 674.87 million or 10.9% of GDP; at the end of 1997 – 6.1% of GDP).

To enhance stability and safety of the financial system, a new independent supervisory authority is being established through merging the Credit Institutions Supervision Board of the Bank of Latvia, Security Market Commission and Insurance Supervision Inspectorate. The Parliament adopted the law “*On Financial and Capital Market Supervision Commission*” in June 2000. It is envisaged in the law that the new institution will start operation in July 2001.

2.2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

The desire to integrate into the economic and security structures of Western Europe has created a consensus for reform in Latvia. The authorities have made great progress on improving the consistency of economic policy making through the adoption of a medium-term strategy. Fulfilment of the Joint Assessment of economic policy priorities is based on principles of continuity and succession.

Prices for the majority of goods and services in Latvia are freely determined by the interaction of market forces. Only prices for the services of the natural monopolies are regulated. Cost recovery is established, with new payment schedules introduced and the bad debts of the associated enterprises being continuously reduced.

The trade regime in Latvia is very liberal and fully complies with the WTO standards. The principal objectives of the policy are further liberalisation of trade relations as provided for in the Association Agreement and harmonisation of the foreign trade policy with the EU policy regarding third countries. (For more information see *External relations* and *Agriculture*).

Business entry and exit mechanisms continue functioning. In 1999 8,236 enterprises were registered and 2,388 enterprises liquidated. In the first half of 2000 3,937 enterprises were registered and 1,139 enterprises liquidated.

To simplify the legal environment the Parliament accepted the new Commercial Code, drafted in full compliance with respective EU directives and providing for much more clarity and simplification in the sphere of business activities in Latvia. According to the law, the number of forms of enterprises is reduced from the existing 17 to only 5. Furthermore, the number of documents that have to be presented to the authorities for the registration of a company is being reduced and their content and form is aligned with the requirements of EU company law.

A number of actions were taken as a result of the Action plan to improve business environment (based on recommendations of the FIAS/LDA report On Administrative Barriers) approved by government on May 11th, 1999 and the Action plan approved by the Government on February 29th, 2000 based on FICIL (Foreign Investors Council in Latvia) recommendations.

These actions are oriented toward development of skilled labour, improving tax policy and administration, upgrading transport infrastructure, facilitation of border crossing and customs procedures, eliminating and combating corruption and crime and removing administrative barriers.

The Commercial Pledge register (15 employees) has significantly strengthened since its establishment in 1998. By June 2000 8579 commercial pledges were registered with a total sum of 2 173 051 140 LVL.

The privatisation of land and apartments has significantly contributed to the clarification of property

rights. The reform of Land Books carried out in the framework of PHARE technical assistance project is completed. By 1 June of 2000, approximately 371 144 units (74%) were registered in the Land Book. The number is gradually increasing. Land registration in the State Land Cadastre is virtually complete (98.5%). The land privatisation has been accelerated, (more than 60 agreements on land privatisation are concluded monthly) and is to be completed by end 2000. 80% of apartments are assigned for privatisation.

Banks increasingly play the role of financial intermediaries. Bank lending grew by 4.7%, reaching the amount of 17.9% of GDP (15.8% in 1998). Prudent financial control makes banks very careful about the quality of loan portfolio. Non-performing loans do not exceed 7% of the total loan portfolio of which only 1% fall under classification "lost". Spread between deposit and lending rates in domestic currency has narrowed and on average stands at 5% - 6%.

The necessity to strengthen the regulation of public utilities remains an important issue. The draft law "*On Regulators of public services*" was accepted by the Parliament in 2nd reading on March 30, 2000 and to be adopted by September 2000. The Law stipulates establishment of powerful and independent multi-regulator in the areas of power, telecommunications, postal services, railroad transportation and passenger transportation.

The law is to ensure continuous delivery of safe and high quality public services, whose tariffs (prices) comply with marginal costs, and to promote development and competition in the regulated industries, setting the public service regulatory procedure and legal relationship in delivering of public services.

The structure of the economy has continued to evolve towards the model known in the more advanced industrialised economies. In particular, the agricultural sector is declining in relative importance, and the service sector accounts for a larger share of output (68%). The service sector has been one of the most dynamic parts of the economy in recent years, and constitutes an important share of exports (around 31%). In this respect, Latvia benefits both from its unique geographical location as a transit route between East and West, and the good infrastructure of its ports, railway lines and pipelines. This is an important source of competitiveness for the economy. Moreover, both the ports themselves and the transport routes servicing these ports are being upgraded.

The capacity to cope with competitive pressure and market forces

A detailed plan for meeting the criterion is being incorporated in the updated National Programme for Integration into the EU, the Medium term Economic Strategy in the Context of Accession to the EU, as well as the Joint Assessment of Economic Policy Priorities of Latvia and National Development plan. These documents provide a stable framework for pursuing consistent market oriented policies aimed at further strengthening of the market economy and enhancing the ability to withstand competitive pressure within the internal market.

Sound government policies have resulted in increasing macroeconomic stability. They provide for a clear indication of policy directions. These have contributed to strengthening an environment more conducive to domestic investment, as well as attracting higher levels of foreign direct investment. Investment as a share of GDP continues to grow. Enterprise privatisation and restructuring have led to a more flexible enterprise sector, which is more responsive to market conditions.

The main challenges – production of goods with high added value, attraction of investment, modernisation of technologies, ensuring of the quality in compliance with EU requirements, export promotion, the use of domestic resources, improvement of business environment – are addressed in Concept of Latvian Industrial Strategy. (For more information see *Industrial policy*).

Authorities have made great strides in introducing and implementing EU quality standards to ensure competitiveness of producers in domestic and foreign markets. The full implementation of EU standards will take place by the end of 2002, as provided by the respective programme. Many companies are in the process of adjusting their business to EN 29001-3 standards. (For more information see *Free movement of goods*).

Latvia has a relatively well-educated labour force. Generalised education indicators of the workforce (November 1999) are as follows: higher education – 20.6%; specialised secondary (professional post-secondary, non-tertiary, level 4 by ISCED 1997) or upper secondary professional education – 42.9%; and general upper-secondary education – 34.6%.

The need for reforms in the restructuring of labour capital have already led to the following: 13 088 (11.2%) officially unemployed persons have passed re-qualification courses, 50.6% succeed in finding job. 800 re-training programmes are available. (For more information see *Social policy*).

The Rural Development plan was elaborated and revised to restructure agricultural sector. Ministry of Agriculture sent revised RDP to European Commission on June 19, 2000. The Rural Support Service has been established as an executive body for agricultural policy implementation in Latvia. The Rural Support Service and these 9 regional offices are envisaged as the institutions dealing with the management of subsidies for agriculture and rural development, as well as SAPARD financial assistance. The accreditation of Rural Support Service as SAPARD agency is envisaged in September 2000.

During 1999 the volume of exports to the EU has been growing. It reached 62.5% of total exports. Export base is successfully diversified with CIS markets share being only 7%. Exports of chemicals (to the EU) increased by 4.7%, wood and articles thereof – by 7.1% and textiles – by 1.8%. Quality improvement and growing productivity were the main reasons behind that. Quality of the goods has improved thanks to introduction of the EU technical standards. According to the last report by the IMF, productivity growth in Latvia has been higher than in many other transition economies.

The share of processing industries in total exports remains dominant. In 1999, the biggest increase in export was noted in manufacture of wood and articles of wood (11.9%).

In August 1999 a principal agreement on criteria of establishment of the single Baltic securities list was achieved. An important event on the securities market was an official invitation to join the Exchange Alliance of Nordic Countries – NOREX received by the Riga Stock Exchange in September 1999 that would allow the securities market to integrate into the European financial markets. In November 1999, the Council of the RSE supported signing the Letter of Intent. Once the detailed criteria are met by the Riga Stock Exchange, it will become a full-fledged participant in NOREX. Later, in January 2000, the Agreement on harmonisation of securities trading and listing provisions was concluded between stock exchanges of the Baltic States meaning that the Latvian, Estonian and Lithuanian Stock Exchanges approved the companies for the Baltic list which consists of the Baltic blue-chip companies.

Most of the conditions necessary for the acceleration of restructuring in Latvia's economy, which would lead to sustained increases in competitiveness, are now in place. Much has been done to achieve sustainable macroeconomic stability and to implement the reforms needed to create a market economy. Investment in Latvia has increased, and privatisation is completed in principle. Latvia has succeeded in maintaining macroeconomic stability, and ongoing sustained progress with the reform programme enables Latvia to cope with competitive pressures and market forces within the Union in the medium term.

2.3. OBLIGATIONS OF MEMBERSHIP

1. Free movement of goods

Since 1998 the horizontal legislation in the field of free movement of goods is in place. Sectoral legislation is mostly in place in areas of electrical risk and electrical equipment, toys, chemicals, legal metrology and pre-packing, and pharmaceuticals. The overall framework of the conformity assessment legislation is defined in the law “*On Conformity Assessment*” (adopted in August 1996, amended in October 1999) and supplementary regulations of the Government. The main institution for implementation of the law is the Latvian National Accreditation Office (LATAK). The basic principles of standardisation (namely: transparency, consensus, voluntary nature and wide participation) are in place since adoption of the law “*On Standardisation*” in 1998. Latvia was one of the firsts among candidate states to start negotiations on the Protocol of European Conformity Assessment. The framework Protocol and two first sectoral annexes have been prepared for signature.

To supplement the current legislation on market surveillance with provisions of the EU directives on general product safety (92/59/EEC) and product liability (85/384/EEC) the 1996 law on products safety and liability was replaced by the “*Product and Services Safety Law*” and the law “*On the Liability for the Product or Service Deficiencies*” (June 2000). The “*Product and Services Safety Law*” contains a chapter which defines the rights of the officials of the market surveillance authorities. It also provides the establishment of the Market Surveillance Council, where market surveillance authorities, responsible ministries and associations of producers and consumers will be represented.

The Consumer Rights Protection Centre is responsible for the market surveillance of almost all non-food products for which specific requirements exist – electric products, construction materials, toys, and also of surveillance of general product safety for products where is no specific safety requirements. Besides the Consumer Rights protection Center, the State sanitary inspection is dealing with market surveillance activities of foodstuffs, as well as cosmetics and household chemicals, Sanitary Border inspection carries out the control of the loads on the state border. As regards specific products, there are other institutions involved (see annex)⁵.

In the framework of the PHARE “Standards” project the specialists of the Consumer Rights Protection Centre have been trained for planning and organisation of market surveillance activities, risk assessment as the basis for planning market surveillance activities and market surveillance of specific product groups. The implementation of the ISO 9001 standard has been started in the Centre.

In March 2000 the National Accreditation Council was established. The Council consults on issues of accreditation of institutions for certification and inspection, and laboratories for testing and calibration. The Council consists of representatives from industry, consumers, science, trade, government institutions, standardisation, metrology and accreditation bodies, in total 12 persons.

By June 2000, 2562 standards were adopted, including 289 International standards and 2097 European standards. It is planned to adopt about 1600 standards during the year 2000. By 1 May 2000, the Latvian National Accreditation Office has accredited 109 testing laboratories; 1 personnel certification body; 3 products certification institutions; 5 calibration laboratories, 6 inspections and 1 quality system certification body. The full implementation of EU standards will take place by the end of 2002, as provided by the respective programme. Many companies are in the process of adjusting their business to EN 29001-3 standards.

As regards **sectoral legislation**⁶, since October 1999 new legislation has been adopted in areas of

motor vehicles (fully transposed, except legislation on agricultural and forestry machinery, which will be transposed during 2000); labelling of foodstuffs, chemicals (a Chemicals Bureau was established in the Latvian Environmental Data Centre); manufacturing and distribution of medicines for human use; safety of toys; personal protective equipment; appliances burning gaseous fuels; electrical risk and electrical equipment; lifting equipment; safety of machinery; medical devices; pressure vessels; and glass labelling. Legislation on fertilisers; pharmaceuticals for veterinary use; cosmetics; telecommunications equipment; recreational craft and wood has been prepared or is being drafted.

In order to implement EC directives 93/38/EEC, 98/4/EC and 92/13/EEC regarding **public procurement**, amendments were made to the law “*On Government and Municipal Procurement*” (March 2000) and the new law “*On Works, Supplies, Lease and Services Procured by Entities Operating in the Public Utilities Sector*” was adopted (November 1999). The new law establishes the Procurement Supervision Bureau (PSB) to enhance the supervisory capacity and transparency in the field of public procurement. The powers of the PSB are considerably wider than the rights of the supervision institution in existence until now. A PSB decision is binding for procuring entities, The PSB is entitled to consider complaints on compliance of the procurement procedure on a legal basis; finally, the Bureau will be able to suspend the awarding of a contract. Preparatory activities are being carried out. Substantial assistance is being provided by the PHARE'98 Institution Building project. Amendments to the law “*On Government and Municipal Procurement*” require that all invitations to participate in a tender and the requests for proposals are to be published on the Internet. The amendments also shorten the time limit for publications of invitations in the official newspaper. Latvia has submitted to the WTO Secretariat its application to join the WTO Government Procurement Agreement.

2. Free movement of persons

Latvia fully accepts the basic principle of free movement of persons and will be ready to implement it from the date of accession to the EU.

The principal distinctions with EU requirements of education to separate professions do not exist in Latvia.

In May 1999 the Parliament adopted a law ratifying the “*On Convention on the Recognition of Qualifications concerning Higher Education in the European Region*”. The system for recognition of diplomas in the framework of this Convention is functioning successfully in Latvia.

In May 2000 the Parliament approved the Bilateral Agreement between the Baltic States on the academic recognition of educational qualifications in the Baltic educational space and on the creation of a common educational space in general upper secondary education and vocational education within the Baltic States.

In August 1999 the draft law “*On Regulated Professions and Recognition of Professional Qualifications*” was considered in the meetings of the Committee of Cabinet of Ministers. The draft law was restructured with a view to the latest changes in the sector of professional qualifications. In June 2000 the draft law “*On Regulated Professions and Recognition of Professional Qualifications*”, amendments to the laws “*On Medical Treatment*”, “*On Doctors of Practice*”, “*On Pharmaceutical Activities*”, “*On Lawyers*”, “*On Road Transport*” and 14 draft regulations were submitted to the Government. The qualifications of foreigners in the field of navigation and civil aviation have been recognised on the basis of international conventions.

In December 1999 a seminar On Mutual Recognition Qualification organised by PHARE ALL project for ministries and other institutions, took place.

The Academic Information Centre (AIC) represents Latvia in the international network of academic recognition institutions and provides the academic recognition of higher education diplomas. AIC (non-profit institution established in 1994 and governed jointly by the higher education institutions and Ministry of Education and Science; 5 employees) carries out the academic recognition of foreign qualifications and provides information to EU Member States and Associated states within the EU/NARIC network and within the joint Council of Europe/UNESCO ENIC network. At present AIC also carries out the academic recognition for professional purposes and is thus involved in the implementation of the principles of EU directives for professional recognition in regulated professions. The draft law “*On Regulated Professions and Recognition of Professional Qualifications*” foresees that AIC, as Latvian NARIC shall also function as the information institution.

The establishment of free labour market in the Baltic States is currently under negotiations among the Baltic States.

As regards co-ordination of social security schemes, social security system has been set up that covers all traditional branches within the meaning of EU Regulation 1408/71/EEC. At present, co-ordination in the field of social security is fostered by bilateral agreements. In June 2000 the Agreement between the Republic of Latvia and the Republic of Finland on Social Security entered into force.

In March 2000 the Government adopted regulation “*On the employment procedure of non-citizens and stateless person in Latvia*”.

Abolition of checks on persons at internal frontiers. In order to ensure the free movement of persons and fulfil the necessary conditions for joining the Schengen Convention, the following actions has been taken:

- In December 1999 the Minister of Interior and Minister of Foreign Affairs approved the instruction “*On issuance, processing, cancellation, registration and accounting of the visas of the Republic of Latvia*”.
- In 1999, the Unified Visa Information System was developed. The system is operational since January 2000; therefore every visa issued is registered in the database.
- Visa-printing machines are being gradually bought and the issuing of machine-readable visas is continuing.
- In May 2000 amendments to Regulations “*The Order of Issuing Visas to the Republic of Latvia*” were adopted with the purpose to introduce transit airport visas. These amendments were drafted to comply with Addendum No. 9, “*Completion of Formalities*”, of the Chicago International Convention on Civil Aviation, and the provisions of the Joint Action, passed by the Council on 4 March 1996 and defining the transit agreement between airports, which was adopted according to Article 3 of the Treaty of European Union.

In April 2000 a working group was established in order to draft a new “*Immigration Law*” by November 2000, which will include all the requirements of the European Union in the field of migration.

Latvia has concluded agreements with Belgium, Greece, Croatia, Luxembourg, Netherlands, Portugal, Slovenia, Spain and German on the readmission of persons residing illegally. Soon such an agreement will be signed with Austria.

Bilateral visa-free regimes have entered into force between Latvia and Austria, Belgium, France,

Greece, Croatia, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Spain and German.

3. Freedom to provide services

The cornerstone for the development of a modern and competitive financial system has been laid down at an early stage of transition. Successful establishment of the essentials of a market-oriented financial system gave the impetus for rapid development, while further consistent steps allowed keeping the momentum up. Economic agents operating in the financial market face just the same conditions as they do while conducting business in Europe. Thus in the field of financial services, legislation is virtually in line with the *acquis*.

Legislation in the field of banking complies fully with 10 banking directives mentioned in the *White Paper* except for quantitative requirements of Deposit guarantee directive (94/19/EC). The EU directive on annual accounts and consolidated accounts of banks and other financial institutions was transposed in 1999 when the Bank of Latvia passed regulations "*On Consolidation Requirements for Annual Accounts of Credit Institutions*." Pursuant to the amendments to the law "*On Credit Institutions*", consolidated supervision was introduced in Latvia as of January 1, 1999.

New "*Regulations for Calculation of Capital Adequacy Ratio*" adopted in March 2000 introduce capital charges for market risks. The Regulations in several consecutive steps will be fully introduced in January 1, 2001 thus all Core Principles for Effective Banking Supervision of the Basle Committee will be ensured.

Latvia has a proper legal framework for successful development of the securities market; the basic provisions are in compliance with the EC requirements.

New regulations "*On Capital Adequacy of Brokerage Companies*" were prepared according to requirements of directive 93/6/EC. These regulations are to be adopted by July 2000 and implemented by stages till year 2002. Parallel, in June 2000 the Parliament passed amendments to the law "*On Securities*" to foster implementation of the EU directives 89/592/EEC, 89/298/EEC and 88/627/EEC.

The draft law on investor protection based on the requirements of the EU directive 97/9/EC was approved by the Council of the Securities Market Commission. Taking into account complexity of the issue, it is planned that the final draft will be approved in 2001. Amendments to the law "*On Investment Companies*" were adopted by the Parliament in June 2000. The amendments refer to the EC directive 85/611/EEC (UCITS). The Securities Market Commission approved a number of regulations governing the market and facilitating full implementation of the EU directives⁷.

Legislation in the field of insurance is broadly in place since 1998. The legislation on insurance companies and insurance supervision contains the main prudential rules of the first stage Directives.

The amendments to regulations "*On Formation of Annuals Accounts of Insurance Companies regarding some principles of consolidation*" were adopted. These regulations cover all the measures prescribed by the EU Directive 91/674/EEC On the Annual Accounts and Consolidated Accounts of Insurance Undertakings.

The amendments to the law "*On Insurance Companies and their Supervision*" and "*Insurance Contract Law*" adopted *inter alia* cover gaps in such fields as supplementary insurance, calculation of own financial resources, matching rules, investments of technical provision.

Besides, Insurance Supervision Inspectorate elaborated prescriptions on credit and suretyship insurance and tourist assistance insurance. Detailed definitions and further requirements in respect to legal expenses insurance will be prepared as binding instructions of Insurance Supervision

Inspectorate till end 2000.

Administrative capacity. The administrative and implementation structure in banking supervision is in place and corresponds to standards of advanced economies. The Bank of Latvia has established an adequate regulatory framework for banking supervision and possesses the required administrative capacity for its enforcement. Recently performed self-assessment confirms that (based on IMF methodology and supplemented with an independent evaluation by an IMF expert), the Bank of Latvia complies with all 25 Basle Core Principles of Effective Banking Supervision, and only minor improvements (most of those already scheduled) are needed to achieve complete compliance.

The Credit Institutions Supervision Department of the Bank of Latvia carries out supervision of credit institutions. Currently there are 55 staff members in the Banking Supervision Department. Part of them deal with on-site banking examinations, and the other part – with off-site analysis. The inspection teams visit each commercial bank 2 – 3 times per year, in addition to regular audits by external auditors. 56 on-site inspections took place in 1999. The Bank of Latvia's specialists have supplemented their knowledge in various seminars, workshops and other events organised by Joint Vienna Institute, Central Banks of EU member states, TAIEX office, etc.

Securities market commission (established in 1996) has been properly fulfilling its supervisory functions. There are 22 employees working with the Commission in its four departments. The SMC staff verifies legal compliance and protects investors' interests by monitoring and inspecting intermediary companies as well as licensing activities of both legal entities and securities market professionals. During 1999 authorised persons of the SMC conducted 41 on-site inspections in the intermediary companies. Inspections were also conducted in branch offices of five licensed intermediary companies. At the same time, the SMC analysed financial statements and other documents submitted by intermediaries appraising their conformity with the legal framework.

The Insurance Supervision Inspectorate (established in 1995) effectively controls the financial activities of insurers and private pension funds on a regular basis and assesses the financial stability of insurers and private pension funds. In order to protect interests of the insured, the ISI can give binding instructions to the insurer concerning the tariff policy, investment structure, profit distribution, reinsurance arrangement and transfer of the insurance portfolio or its part to another insurer (of course, this can be done only for prudential reasons). 22 employees work for the ISI. In 1999, the Insurance Supervision Inspectorate performed 7 audits and 25 on-site visits in insurance companies and pension funds. According to the provisions of the law *“On Insurance Companies and Their Supervisions”*, the ISI issued 17 binding instructions for insurance companies.

In June 2000 The Parliament passed a law *“On the Finance and Capital Market Commission”* (FCMC) that integrates the Security Market Commission, Insurance Supervision Administration and Financial Institutions Supervision Department of the Bank of Latvia. The main advantages of the FCMC are its financial and political independence. It is planned that the FCMC will launch its operations as of July 1, 2001. The Consultative Council is appointed as advisory institution.

The board of the FCMC consists of five members. A chairman and a deputy chairman will be appointed by the Parliament for six years at the joint proposal of the president at the Bank of Latvia and the minister of finance. The chairman of the FCMC is to be approved by September of this year. According to the law, the Bank of Latvia and financial and capital market members will initially finance operations of the commission in the amount set by the commission's council. Financial contribution of the Bank of Latvia is to decrease gradually and starting from 2007 the FCMC becomes financially independent institution.

4. Free movement of capital

No restrictions on convertibility of national currency exist in Latvia either on current account or capital account transactions. Foreign investors can freely repatriate their investments and profits after paying due taxes. Both residents and non-residents are allowed to hold foreign currency in cash or open bank accounts in the Latvian or foreign currency without any restrictions. Every Latvian resident can use without any restrictions foreign financial services. All financial transactions that mentioned in the Council Directive for implementation of Article 67 of the Treaty of Rome are free.

Since the beginning of 1999, Latvia has achieved substantial progress in removing remaining restrictions on capital movements. On October 14, 1999 the Parliament adopted amendments to the law “*On Radio and Television*” whereby previously existing restrictions on foreign ownership (49% limit) were abolished. Similar amendments to the law “*On Lottery and Gambling*” were adopted on November 11, 1999. New Forest law has been adopted on February 24, 2000. Thereby formerly existing restrictions on foreign ownership in logging business were lifted. All the amendments have become effective.

Liberalisation in the area of security services is close to completion. The amendments to the “*Law on Security Services*”, which aims at liberalisation of the sector for EU investors were adopted in the first reading in June 2000. Final adoption will take place, and the amendments will become effective by the end of 2000.

Pursuant to decision of the European Integration Council in February 2000, amendments to the laws “*On Land Reform in Cities*” and “*On Land Privatisation in Rural Areas*” were prepared. The ultimate objective of these laws is to ensure national treatment for branches of the EU enterprises and self-employed persons from the EU as far as purchasing land is concerned. They will be submitted to the Government by the mid-summer 2000.

For prudential reasons only, there exist some restrictions (with respect to pension funds and insurance companies) to invest abroad. Thus, according to the private pension funds law these funds are prohibited to invest abroad (in securities, real estate, etc) more than 15% of their assets. Insurance companies are obliged to get permission from the supervisory body in case the investment abroad of their technical reserves exceeds 10% of the total volume thereof. It is planned to bring the Latvian legislation in compliance with the EC legal acts as far as investments abroad are concerned by 2003.

5. Company law

In the area of entrepreneurial activity, the adoption of EU legislative norms will basically be complete when the new Commercial Code that was adopted by Parliament on April 13, 2000, takes effect on January 1, 2001. The new law implements the 1st, 2nd, 3rd, 6th, 11th and 12th company law directives and systematises all of the issues that regulate business activity, which were scattered throughout many different laws previously.

Industrial property rights. Harmonisation of the national legislation with the *acquis* on industrial property is practically completed. All institutions that are necessary for implementation of the current laws and enforcement of industrial property rights have already been established and are functioning.

In January 2000 the law on joining the *Protocol relating to the Madrid Agreement Concerning the International Registration of Marks* entered into force. In December 1999 the *Trademark Law*

Treaty of 1994 was ratified.

The Latvian Patent Office is an independent organisation under the supervision of the Ministry of Justice (operates since 1992, currently employs 36 persons). In 1999, 1914 trade marks were registered, 53 industrial designs patents and 107 patents for invention were granted; 74 European Patents, 47 PCT (Patent Co-operation Treaty) Patents and 3860 International trade marks have been applied to Latvia. During 1999, 30 appeals against the decisions of the Patent Office and 160 oppositions (mostly against the registration of trademarks) were filed with the Board of Appeals of the Patent Office. In the same period the Board of Appeals examined 17 appeals and 167 oppositions (all oppositions against trademarks registration). During first five months of 2000, 1088 trademarks were registered, 33 industrial designs patents and 70 patents for invention were granted.

Since 1999 the Custom Board have received 9 requests from businessmen to detain goods with market value up to EUR 6 000 000. The main types of goods detained with illegal trademark are clothing, shoes and alcoholic beverages.

Intellectual property rights

In the field of intellectual property rights Latvia's legislation was brought fully into line with the *acquis* by adoption of the "*Copyright Law*" (in force since 11 May 2000).

Since August 1999 Latvia is a member of the *Rome Convention for the protection of performers, producers of phonograms and broadcasting organisations*.

In March 2000 Latvia joined to *WIPO Copyright Treaty* and *WIPO Performances and Phonograms Treaty*.

In May 2000 the Parliament adopted amendments to the "*Criminal Law*". These amendments contain provision of criminal responsibility related to the protection of copyright.

A Copyright and Neighbouring Rights Division with 3 specialists was established in January 2000 within the Ministry of Culture. The "*Copyright Law*" provides that the Ministry of Culture supervises collecting societies of Latvia. The Ministry of Culture co-ordinates enforcement of intellectual property rights, involved institutions are Economic Police Office, customs, Prosecutors' General Office, Film Register, Latvian Music Producers' Association, Authors' Collecting society and others.

Since September 1999 the **Intellectual property rights Subdivision** (2 specialists) is operational in the National Customs Board. There have been 4 seminars for customs officers regarding intellectual property rights with a total attendance of approximately 100 customs officers. 2725 pirated CD's and 4000 audiotapes have been seized.

After statistical data received from the Economic Police Office of the Ministry of Interior in 1999 167 protocols for administrative offences were drawn up, 11 criminal cases prosecuted, 20 915 CD's, 11 313 videotapes, 22 857 audio tapes, 423 DVD's and 6 833 software CD's seized in total amount of 139 708 LVL. In the first quarter of 2000, 11 criminal cases were prosecuted and 2 566 CD's, 10 505 videotapes, 4 550 audiotapes and 11 431 software CD's were seized in a total amount of 332 652 LVL.

Film distribution and public exhibition in Latvia is not allowed without a special permit (license). The **Film Register** (operating since 1994 and currently employing 4 persons) – is functioning under the National Cinematography Centre to issue licenses to film and video distributors and public exhibitors. In 1999 there were 466 enterprises engaged in film and video distribution and public exhibition, comprising a network of 1217 market places, including 1046 market places specialising in videotapes sales and rental; 6658 films were registered for distribution in Latvia. In 1999 the Film

Register made an expertise on 13184 video recordings. In first quarter of 2000, 464 enterprises were engaged comprising a network of 1247 market places, 869 films were registered and expertise was made on 4979 video recordings received from the Economic Police and the Financial Police.

In July 1999 the **Performers' and Phonogram Producers' Collecting Society** was established with the assistance of AEPO (Association of European Performers' Organisations) and the Ministry of Culture.

A Twinning project co-ordinated by the Patent Office of Sweden and Ministry of Culture in Latvia foresees the training for customs officers, judges, prosecutors, police, etc.

Accounting

The requirements of EC 4th Directive were fully implemented by the laws "*On accounting*" and "*On annual accounts of enterprises*" which are in force from January 1, 1993. The last amendments to the latter law were adopted in December 1999.

On October 20, 1999 the Parliament adopted the law "*On consolidated annual accounts*". Adoption of this law ensured full compliance of the Latvian accounting procedures with the requirements of the EC 7th directive.

New draft law "On sworn auditors" was accepted by the Parliament in second reading on June 15, 2000 and is to be adopted in the Parliament by the end of 2000. The law is to ensure full compliance with the requirements of the EC 8th Directive.

6. Competition policy

The aim of the competition policy is to ensure fair competition rules for all market participants, eliminating restrictive agreements, abuse of dominant position, restricting market concentration and offence of fair practice of economic activities in actions of market participants.

Latvia has made significant progress in the field of anti-trust. The new "*Competition Law*" (in force since 1998) is aligned with EU requirements. Secondary legislation in the anti-trust area is being improved and developed in line with the "*Competition Law*".

The Government has issued several regulations, which set certain groups of agreements exempted from prohibition by the "*Competition Law*": exclusive distribution agreements and exclusive purchasing agreements; specialisation agreements, franchise agreements; agreements on joint research and development; patent and know-how licensing agreements; motor vehicle distribution agreements; insurance agreements. In order to implement competition terms in the field of transportation drafting of legislation is initiated giving priority to enforcement of competition legislation in the field of air carriers.

In order to clarify risk factors, which in certain circumstances may influence observance of fair competition standards and principles, analysis of the competitive environment in various markets (aviation, port services, distribution markets etc) was carried out.

Administrative capacity. The Competition Council (established in 1998, 35 employees) and its executing body, the Competition Board is functioning with sufficient staff. During 1999, the Competition Council reviewed 58 cases. 25 cases on unfair competition and misleading advertising, 18 on - abuse of dominant market position, 5 on - restrictive agreements, 4 on - merger, 6 - other. Approximately 70 consultations with law offices, business associations and separate enterprises explaining the norms of the "*Competition Law*" were rendered in 1999. Decisions and opinions of the Competition Council and information on investigation processes are regularly published in the

mass media.

State aids

Latvia has a fully functioning and consistent state aid control system. The law “*On Control of the State and Local Government Aid to Entrepreneurial Activity*” (1998) regulates state aid principles in Latvia. Control over the implementation of rules in the area of state aid is the provenance of the State Aid Surveillance Commission.

The main development in the legal system in the field state aid control is the successful amendment of the law “*On Taxes and Duties*”, abolishing the practice of long-term tax-debt payment extensions. Furthermore, tax-debt capitalisation was brought under a standard state aid control mechanism. Thus, now all state aid schemes are covered by state aid control legislation.

Preparatory work has been accomplished to bring legislation on special economic zones into full compliance with EU Guidelines on National Regional Aid. Major consensus was achieved with the Liepaja SEZ and consultations with the Council of Ports have been started to ensure broad political support to the proposed amendments. It is planned that the amendments will come into force as of January 2002 at the latest.

The state aid report for 1998 was further aligned with EU requirements and full compatibility of the 1999 state aid survey with that of EU will be ensured.

Administrative capacity. Latvia's choice of establishing an independent collegiate State Aid Surveillance Commission [in late 1997, 13 members] entrusted with extensive powers turned out to be the right approach. Taking into account the liberal economic policy of the Government with minimum intervention in business activities the State Aid Surveillance Commission had to take decisions only on 3 state aid projects in 1999. The other factor that keeps the number of approved projects at such a low level is a “filter”- type function of the secretariat of the Commission. Those projects, which are obviously incompatible, do not reach the Commission: the secretariat of the Commission prepares the explanations on the key deficiencies of the projects, which with the acceptance of the Head of the Commission are sent out.

During the first 6 months of 2000 the State Aid Surveillance Commission has adopted 2 decisions (both being modifications to previously approved state aid projects). Furthermore, there are some pending cases related to capitalisation of old tax debts of privatised companies.

The State Aid Surveillance Commission issued a Communication on application of real estate tax relief in the context of requirements of state aid control.

It is planned that in year 2000 the State Aid Surveillance Commission will publish a manual on state aid policy issues for distribution to central government structures and municipalities.

To raise awareness of state aids it is planned to organise a series of workshops in the framework of a Twinning project financed by the *PHARE* programme. The State Aid component is implemented within the larger twinning project “Internal market capacity building and enforcement”.

7. Agriculture

Latvia pursues a comparatively liberal and open agricultural market policy, applying customs tariffs to imports of agricultural goods as a market regulation measure. The agricultural market in Latvia was influenced in a negative way by the economic crisis in Russia. The pig meat, milk, fish and

sugar production sectors were most affected. In 1999 gross agricultural product did not show any considerable changes if compared to 1998. In 1999, agriculture, hunting and forestry constituted 3.4% of the total GDP, including 1.3% forestry and related services.

Production - In 1999, livestock farming output fell, meat production decreased by approximately 12.7% and 45.8 % of agricultural land was used for grain production. The most significant cereals are wheat, rye, barley and oats.

16.7% of the population is employed in agriculture, forestry and hunting. 10.6 % being employed full time. It is envisaged that over the next decade, employment in the agricultural sector will decrease. Therefore, parallel to the development of the agricultural market, rural development is considered to be a priority by supporting diversification of activities on agricultural holdings.

In 1999, 3 milk processing enterprises, 5 fish processing enterprises and 3 refrigerator ships were added to the list having permits to export foodstuffs to the EU. At present a total of 9 milk-processing enterprises, 9 fish processing enterprises and 4 freezer vessels are approved for export of their products to EU.

Foreign trade - Imports of agricultural products in 1999 compared to 1998 fell by 11%. The total value of exports of agricultural products in 1999 compared to 1998 decreased by 44%. The negative balance of trade in 1999 amounted to 158.5 million LVL. The strongest impact on the negative trade balance of agricultural products was made by a considerable reduction of exports to Russia and Ukraine, combined with a considerable reduction of export FOB prices for certain products.

A significant part of legislation is in line with EU requirements in the veterinary sector.

In December 1999 the law “*On Animal Protection*” was adopted, implementing the basic principles of EU animal well-being legislation.

In March 2000 amendments to the law “*On Pedigree Activities*” and 4 instructions by the Ministry of Agriculture were adopted.

In May 2000, the Government adopted a framework law “*On Veterinary Medicine*”, which partly introduces EU requirements in the sphere of veterinary medicine and creates the foundation for a complete incorporation of EU veterinary requirements into national legislation.

Regulations have been adopted introducing EU requirements with respect to hygiene, marking, storing and transport of milk (October 1999), and honey (April 2000).

On the basis of the instruction of the Ministry of Agriculture “*On Animal Identification*” in June 2000, all bovine animals are to be identified and registered in Latvia. In June 2000 the Ministry of Agriculture issued the instructions “*On identification of pigs*” and “*On identification of sheep and goats*”. Completion of the identification of all such animals is planned by December 2000.

The institutional capacity of the State Veterinary Service (700 officials, including laboratory staff, technical staff and about 1000 state-authorized veterinarians) has been improved – reorganisation of a central body of the State Veterinary Service (SVS), increase in the capacities of the State Veterinary Medical Diagnostic Centre (SVMDC) and of the regional laboratories. Four veterinary laboratories were accredited by 1999 (the total number of veterinary laboratories accredited and conform to the EU rules is 14). SVMDC was reorganised and reconstructed.

Attention was focused on staff training both in Latvia (154 persons) and in the EU Member States (53 persons). An information system of the State Veterinary Service is now being setting up; the database for accountancy and analysis of laboratory samples has been established. Special sampling equipment has been acquired for veterinary inspectors for veterinary surveillance and a centralised

transportation of the samples.

Lists of States and enterprises whose products of animal origin (meat and milk) are accepted for import have been established. Samples of the forms for Veterinary (Health) Certificates have been drawn up for imports of milk, dairy products, meat and meat products, as well as breeding horses.

Sanitary Border Inspection (established in 1997) has accomplished connection of 23 sanitary border control posts to the State Data Transmission Centre with a view to ensuring fast information exchange with the central office, including data of rejected consignments. A computer programme for inspectors of the Sanitary Border Inspection has been modified, approximating it to EU requirements in the sphere of veterinary border control. New working stations have been acquired for control posts of the Sanitary Border Inspection.

In 1999, 5 control posts of the Sanitary Border Inspection were equipped with necessary appliances and equipment, 2 control posts were partly equipped. By now 25 control posts are connected to the centralised network. The training of inspectors of the Sanitary Border Inspection and their study visits to EU Member States have taken place in order to learn from foreign experience in the organisation of the border control of consignments.

The Sanitary Border Inspection successfully continues co-operation with several domestic market monitoring institutions in Latvia. Such co-operation promotes the market and at the same time ensures consumer safety. Co-operation agreements have been concluded between the Sanitary Border Inspection and laboratories.

Currently, construction work has been finished on the Eastern border. Border control posts now partly comply with EU standards and the Sanitary Border Inspection is enable to carry out checks of consignments efficiently and professionally. The Sanitary Border Inspection has started fitting out perspective EU external border control posts with the necessary equipment.

In 1999, 176000 consignments were subject to sanitary-hygienic control and 199000 veterinary and 141000 phytosanitary consignments were controlled by the Sanitary Border Inspection. 202 consignments have been tentatively suspended until submission of appropriate accompanying documents, 36 consignments were returned and 60 were dispatched for destruction after laboratory examination.

A significant part of the legislation is in line with EU requirements in the plant protection and phytosanitary sector. In October 1999 the law "*On Seed and Planting Stock Chain*" was adopted which introduces the basic principles of the EU legislation and serves as the basis for adoption of legal acts with respect to the seed chain. In October 1999 the amendments to the law "*On Protection of Plant Varieties*" were adopted, implementing EU requirements.

During 1999, four regulations were adopted, which introduce EU requirements with respect to plant quarantine, registration, sales and application of plant protection means, as well as control of pesticide residues. Action plans have been laid down for restriction and eradication of quarantine organisms, as well as to determine distribution of certain plant quarantine organisms. In October 1999 the Regulations "*On Plant Quarantine*" (EC Directives 77/93, 92/90) and the Regulations "*On Authorisation of Plant Protection Products*" (EC Directives 91/414, 79/117, 78/631) were adopted.

The introduction of EU requirements in the sector of fruits and vegetables has commenced – 33 standards for fruits and vegetables have been adopted.

Reorganisation of the State Plant Protection Service was carried out in 1999. The area of responsibilities of SPPS was increased, two new departments were established – a Seed control

department which provides seed certification and a Plant variety department which is involved in recognition, registration and evaluation of plant varieties, as well as plant variety rights. The number of staff was increased from 130 to 258 persons.

The National Programme for Integration into the EU has adopted the schedule of the implementation of CAP intervention mechanisms.

In October 1999 amendments to the law "*On Grain Market and the State Reserve in Latvia*" were adopted, introducing market regulation mechanisms. Transposition of the CAP directives regulating grain market will be finished by December 2005. It is envisaged to substitute an annual drawing up of market intervention regulations by a long-term market intervention mechanism.

In June 2000 a draft law "*Rules on market intervention into cereal market*" was submitted to the Government. The law envisages the necessary measures for stabilisation of the cereal market in Latvia.

In January 2000 amendments were made to the law "*On Sugar*", laying down the procedure for determination of maximal sugar production quantities (quotas), types of quotas, quantities of sugar-beet supplies for sugar-beet producers, and on sales of sugar produced in excess of quotas. The amendments to the law made provisions with regard to the procedure whereby customs duty is levied on all imported sugars to imports of all sugars and to market intervention in the sugar sector.

In February 2000 the Regulations "*The procedure of determination of sugar-beet supplies for sugar-beet growers for 2000*", "*Types of sugar-beet production quotas and their allocation procedure*" "*On sugar beet production quotas for 2000*" were adopted (EU Council Regulations No 1785/81, No 193/82 and the EU Commission Regulations No 1443/82, No 2670/81, No 65/82, No 1043/67).

It is planned that by mid 2004 the State intervention principles will be defined for the pig meat and milk market and by late 2004 for the beef and fruit/vegetable market.

By mid 2003, the law on producer market organisation will be drawn up. Currently studies on the EU legislation in this sphere are being carried out and experience is being gathered on the operation of producer market organisations in the EU Member States.

In 1999 reorganisation of the central body, as well as of the institutions subordinated to and supervised by the Ministry of Agriculture, was carried out. The functions of agricultural policy, analysis and strategy were separated from the administrative functions, thus increasing efficiency of policy and strategy making functions, as well as the functions of drawing up legal acts.

In April 2000 the law "*On Rural Support Service*" was adopted and the Rural Support Service has been established as an executive body for agricultural policy implementation in Latvia. The Rural Support Service and the 9 regional offices are envisaged as the institutions dealing with the management of subsidies for agriculture and rural development, as well as SAPARD financial assistance. The accreditation of Rural Support Service as a SAPARD agency is envisaged in September 2000.

Personnel of both central and regional offices are trained in computer applications (82 persons) and have passed an English course (55 persons). Managing officers received brief training in Paying agencies in Ireland (3 persons) and Germany (5 persons). Training in Financial controls, Monitoring, Technical controls and Evaluation of business plans has also been planned. These training activities are partly financed by the PHARE SPP project and own resources.

An Information Centre has been established at the Ministry of Agriculture where the translated EU legal acts and general information about agriculture are accessible.

In 2000, it is planned to prepare and approve the land consolidation concept. The concept will lay down the basic tasks and their execution procedures for consolidation of agricultural and forest lands. The concept will also serve as the basis for the law “*On the Land Use Planning (consolidation)*”, which is envisaged to be completed by the first part of 2001.

A Latvian-German-French twinning project “*Technical Assistance to the Ministry of Agriculture to support Modernisation and Restructuring of the agricultural sector*” has been ongoing since August 1999. The twinning project “*Sustainable Approximation – integration into EU*” will start in October 2000. The twinning project “*Modernisation and capacity Building of Food Control at National and regional Level*” is being prepared. The Framework project “*Support for Phytosanitary/Plant Protection Service*” started in November 1999. The twinning project “*Development of integrated Latvian border management and infrastructure*” has been approved under PHARE 2000.

8. Fisheries

In 1999 the fisheries sector was negatively affected by the economic crisis in Russia. The share of fisheries in GDP gradually decreased (2.48% in 1998, 1.75% in 1999). The production volumes of fisheries products in 1999 decreased by 3% in comparison to 1998. In 1999 Latvia exported more than 90% of its fish production. Currently 9 fish processing companies and 4 freezer vessels are in compliance with the Directive 91/493 requirements. Export to the EU in 1999 has increased by 4.8% in comparison to 1998.

Major attention was paid to improvement of competitiveness of the fisheries sector, to restructuring and modernisation of fishing enterprises in compliance with EU requirements with a view to ensuring the ability of fishing, processing and aquaculture enterprises to cope with the competitive pressure of the EU Single Market.

Within the State subsidies programme in 2000 (248 000 LVL) and the forthcoming years, is envisaged for modernisation of fishing vessels and freezer vessels to meet EU hygiene requirements and installation of satellite monitoring equipment on fishing vessels. A separate register of fishing vessels complying with EU requirements will be set up in late 2000.

Legislation in the fisheries sector in general is harmonised with the EU requirements. The “*Fishing Law*” was amended in March 2000 to lay down the requirements for the establishment of an information system in fisheries (including a fishing vessel register), to approve the National Board of Fisheries as the competent authority of the fisheries information system, as well as to readjust the norms of the “*Fishing Law*” to the vessels fishing in international waters and flying the flag of Latvia. This Law is harmonised with the following EU legislative acts - 3760/92/EEC, 3759/92/EEC, 2210/93/EEC, 1392/91/EEC, 2090/98/EEC.

Draft amendments to the Regulation “*On Commercial Fishing in the Territorial Waters, Economic Zone Waters of the Republic of Latvia and the Gulf of Riga*” are being prepared. The Regulations will set the requirements for the implementation of the vessel monitoring system.

Administrative capacity. The fishery administration in Latvia is represented by the National Board of Fisheries (NBF) (established in 1995, 24 employees) of the Ministry of Agriculture. The NBF is responsible for fish resources management and regulation of fishing activities under the quota system in the inland, territorial and economic zone waters, management of the fisheries sector, elaboration of sector development strategies, legal acts and regulations in fisheries, including the implementation of *acquis* into the fisheries sector.

An increase in the staff of the NBF to administer the forthcoming systems, such as the ICIS and the Fishing Vessel Register, is being considered. In the year 2000 it is planned to increase the staff of

the NBF by one employee and during the period of 2001-2003 – by additional two persons.

The Marine Environmental Board (established in 1996) of the Ministry of Environmental Protection and Regional Development conducts fisheries control and enforcement in the Latvian waters of the Baltic Sea. The MEB ensures vessel inspection in the territorial and economic zone waters under Latvia's jurisdiction, abidance with the fishing regime and regulations, issuing and annulment of fishing licences, as well as control of fish landing and first fish sale transactions in the ports. Currently the MEB employs 69 persons. Out of them 22 inspectors perform fishing control and 11 inspectors control fish landings in the ports.

The Latvian Fisheries Research Institute (LATFRI) is supervised by the NBF and performs scientific research of fish resources, as well as participating in the internationally co-ordinated survey of fish resources within the framework of the International Council of the Exploration of the Sea (ICES). The LATFRI is responsible for data processing and maintenance of the current information system in fisheries. Currently the LATFRI employs 57 persons.

The Latvian Vessel Register (1994) of the Maritime Administration of the Ministry of Transport holds the register of all vessels in Latvia including fishing vessels. The computerised list of fishing vessels has been improved in compliance with EU requirements and the registration of rowing boats and motor-boats used in coastal fishing has been started. The NBF keeps records of all fishing vessels having permits to catch fish beyond coastal waters.

In the field of fisheries product market control, the State Veterinary Service of the Ministry of Agriculture carries out official control of fish production establishments, fishing and factory vessels and port facilities. In accordance with the Regulation *“On Division of Competence between the Ministries on Supervision of Foodstuff Circulation”*, official control of retail sales and public catering is carried out by the Sanitary Inspection of the Ministry of Welfare.

In 1999, inspectors of the Division of Animal Product Surveillance of the State Veterinary Service inspected 117 enterprises and 175 fishing vessels. 86 fish processing enterprises and all 175 fishing vessels have received the approval number showing that they conform to the hygiene requirements. 9 fish processing enterprises and 4 freezer vessels are allowed to export fishery products to the EU.

The EU and bilateral technical assistance project funding is used for the support of both fisheries administration and the private sector. The main support scopes are: Latvia's fisheries integration into EU, fishing and fish processing readjustment to the EU and international hygiene requirements, as well as promotion of aquaculture development. The HACCP system's principles are implemented and the necessary documentation is elaborated in some fish processing companies. Fisheries administration staff is trained in the EU Common Fisheries Policy.

The PHARE project *“Food Product Quality Assurance”* (1998-1999) provided support for 7 fish processing enterprises on the documentation and implementation of the HACCP system.

The Danish technical assistance project *“Assistance to the fisheries, implementing and developing of the own-check system based on HACCP concept to improve the production quality, export possibilities and economic development of the sector”* (1999-2000) with funding of 2 269 841 DKK has been commenced.

The PHARE project *“Fishing Vessel Registration Database Infrastructure”* ensured the specialists' training on data accounting and summarising, providing of reports to the European Commission, and is foreseen to install software for a fishing vessel register data base to be in compliance with EU requirements.

The draft PHARE 2000 project proposal *“Institutional strengthening for the arrangement of the*

fishery administration to the requirements of the Common Fisheries Policy (CFP)” with the funding of 2.29 million EUR has been prepared.

9. Transport policy

The overall policy for the next years is concentrated in the *National Transport Development Programme 2000 – 2006* (June 1999) which ensures a continuous development and maintenance of an efficient, sustainable, integrated, environment-friendly, well balanced multi-modal transport system, which is able to meet the constantly growing demands of the national economy, international trade and general public for quantitative and qualitative transport services ensuring safety, reliability and reasonable costs.

Road Transport: The *Concept on Control in Road Transport Sector* (December 1999) has been adopted. On the basis of the *Concept*, Regulations “*On Control in Road Transport*” (March 2000) have been amended thus stipulating subdivision of functions of controlling bodies, namely, among the Road Transport Directorate and the Customs and Border Guard Institutions. The legal framework for the introduction of the type approval system has been developed. Regulations of the Ministry of Transport “*On Approval of Wheeled Vehicles and Their Parts and Recognition of their Type*” (August 1999) include the requirements of about 160 type approval directives. Regulations “*On Carriage of Dangerous Goods by Road*” (December 1999) introduce ADR provisions for domestic operations, determine the appointment of safety advisers and set out the obligations of a carrier, a consignor (a consignee) and a driver. Regulations of the Ministry of Transport “*On Qualification of Drivers Involved in Carriage of Dangerous Goods*” (March 2000) will improve the safety of the carriage of dangerous goods, and Regulations of the Ministry of Transport “*On Technical Condition of Vehicles and State Technical Inspection*” (February 2000) provide compliance with the Directive 96/96.

Administrative Capacity. The institution responsible for ensuring control of the commercial road transport sector is the Road Transport Directorate (RTD) (established in January 1999; 51 employees). The RTD is responsible for licensing of commercial road transport activities, controlling of commercial road transport activities in compliance with the respective international and national legislation, issuing of international passenger and goods carriage permits stipulated under bilateral and multilateral international road transport agreements and maintaining of data base concerning commercial road transport activities. The training of employees involved in controlling activities has been organised for control of carriage of dangerous goods (24 employees), and for control of weight and dimensions of vehicles (7 employees).

Railway transport: Directives 95/19, 95/18, 91/440 have been fully transposed. The draft law “*On Railway Carriage*” has been elaborated. To transpose Directives 96/35 and 96/49 legal acts regulating carriage (dangerous goods, passengers and luggage) are being elaborated.

Administrative Capacity. The administrative structure of the Latvian Railways has been improved. The Railway Administration (established in July 1999; 12 employees) is responsible for issuing licences, ensuring fair allocation and charging for track access between different operators, promotion competition and prevention the abuse of any dominant market position and protecting the interests of railway passengers. The Railway Technical Inspectorate (established in July 1999; 15 employees) control the preparedness of the respective railway structures for civil defence, control the capability of railways to prevent accidents and eliminate their consequences, control the granting of licences for the utilisation of infrastructure facilities and verify the compliance of these facilities with the requirements of the Railway Technical Operations Regulations and the labour protection regulations.

Public transport: To implement state policy for passenger transport, the draft law “*On Passenger*

Carriage” is being elaborated. A common route network for different types of transport will be elaborated. It will be based on common reservation of tickets and information system. Passenger transportation systems in the region of Riga and other regions of the country will be established, as well as a common policy on concessions. In this regard Regulations “*On Concessionaire Travel in Public Transport*” (November 1999) have been adopted.

Administrative Capacity. The responsible institution for the public transport sector is the Passenger Carriage Department (established in 1997, 8 employees) of the Ministry of Transport.

Air transport: The Government’s priority in air transport is to conclude a Common European Aviation Area agreement. Latvia has signed Protocol IX to the Common European Aviation Area Agreement. *The Latvian Air Transport Policy Paper* (May 1999) reflects compliance with EU Air policy and emphasises the development of an effective air transport system to ensure its efficient functioning within the European and world air transport system. Harmonisation of technical requirements and administrative procedures in the field of civil aviation (Joint Aviation Regulations), determined by Joint Aviation Authorities will be finished by the end of this year. An independent incident and accident investigating body (2 employees) has been established (January 2000) in accordance with the requirements of the *acquis*.

Administrative Capacity. The institutions responsible for the air transport sector are the Aviation Department (6 employees) and the Civil Aviation accidents and incidents investigation division (established in January 2000; 2 employees) of the Ministry of Transport, and the Civil Aviation Administration (37 employees). All staff have been trained.

Maritime transport and shipping policy: In line with the *acquis* and international conventions Regulations “*On Requirements for Vessels Carrying Dangerous or Polluting Goods*”⁸ and “*On Passenger Registration on Ships*”⁹ were adopted in April 2000. The “*Maritime Code*” in compliance with the requirements of international maritime conventions and the *acquis* will be elaborated by the end of year 2000.

A number of International Maritime Organisation (IMO) conventions¹⁰ have been ratified. Currently Latvia is in the process of joining the *International Convention for Safe Containers 1972* and *UN Convention on the Law of the Sea, 1982*. To implement requirements of the *SAR Convention, 1979* regarding the formation of regions of responsibility and co-operation among neighbouring countries, Latvia and Sweden have signed the *Agreement on Co-operation in Maritime and Aeronautical Search and Rescue* (November 1999). The negotiations regarding similar agreements with Lithuania and Estonia are underway.

Administrative Capacity. The Maritime Department of the Ministry of Transport (12 employees) regulates all maritime affairs. The executive body for implementation and control of maritime safety policy is the Latvian Maritime Administration (LMA) (established in 1994; 481 employees), which is subordinated to the Ministry of Transport. Restructuring of the LMA has been commenced. As a result some of its functions (VTS, pilotage, port captain service) have been transferred to the port authorities (regulated by the Amendments to the law “*On Ports*”(May 2000)). The number of employees will be reduced. Training has been carried out.

Road Traffic Safety: *The National Traffic Safety Programme* outlines activities focused on reduction of road traffic accidents and improvement of overall road traffic safety (public education, training and awareness of road traffic safety as well as improving of police control and traffic organisation). The most important goal is to reduce of the number of fatal traffic accidents at least to 300 by the year 2006.

Administrative Capacity. The institution responsible for the road traffic safety sector is the Road Traffic Safety Directorate (RTSD) (established in 1997; ~ 550 employees). There are altogether 123 experts involved in Roadworthiness tests (from RTSD and accredited legal bodies).

ISPA: EU has approved *The National ISPA Strategy for the Transport Sector (February 2000)*. The main emphasis in the ISPA financed projects has been put on further improvements of the most important Transport Infrastructure Needs Assessment (TINA) network elements. During the period covered by the ISPA instrument (2000-2006), the main priorities will be the modernisation and development of selected roads and railway lines of international importance, including access to the ports. Projects for ISPA financing in the road and railway sectors are aimed at improvement of Via Baltica (TINA road corridor #1) and of the access road to Riga Airport, as well as modernisations of the East – West Latvian railway corridor: replacement and renewal of track turnouts, renewal of signalling systems, hot-box detection system modernisation.

10. Taxation

As a result of comprehensive tax legislation reforms initiated in 1995, now there is a modern and transparent (as well as fair) tax system in Latvia that creates favourable conditions for successful economic development and promotes investing in Latvia. The basic principles of the tax system are now in general compliance with the EC requirements.

Since publication of the Regular Report by the European Commission in 1999, Latvia has achieved substantial progress in alignment of tax legislation. In order to harmonise excise tax legislation with the *acquis* new law “*On Excise Tax on Beer*” was passed in November 1999. As the law was introduced, non-conformity with respective EC directives 92/83/EC and 92/84/EEC was removed. In June 1999 the Government passed regulations “*On Establishment, Operation of Excise Goods Warehouses for Alcoholic Beverages and Tobacco Products*” and regulations “*On Excise Tax Guarantees for Alcoholic Beverages and Tobacco*”.

New draft law “*On VAT*” was prepared in accordance with requirements of the Sixth VAT Directive to comprise abolition of previous exemptions for numerous groups of goods and services. The law clarified definitions of ‘internal consumption’ and ‘supply of goods’ and eliminated the previous provision exempting state budget institutions from registering as VAT taxpayers. The law also comprised new provision for refund of VAT to auto-shipping companies for fuel purchased in Latvia and clarified definition of taxable amount for VAT. Finally the law changed order of deduction of input VAT in cases of supply of goods, stipulating that the deduction be made after receipt of the goods and tax invoice. It is planned that the law will come into force on January 1, 2001.

Administrative capacity. Comprehensive SRS modernisation Programme covering years 1998 - 2002 was elaborated in collaboration with the World Bank. The programme covers all strategically important areas of development – establishment of 3-level SRS structure, improvement of management techniques, improvement of tax audit function, strengthening internal control, further computerisation, etc.

The structure of SRS has been changed on functional principles. Starting from January 1, 2000 Excise Goods Department has been re-organised and incorporated within the structure of the State Revenue Service. The Internal Audit Division was established in SRS central administration structure. Internal Audit Strategic Plan for the period of years 2000 - 2004 has been elaborated and approved.

Internal Control Division has commenced its operations within the frame of National Tax Board. It

will be in charge of internal control of all activities of tax administration. Appeal Division has been established to operate outside tax and customs administrations to deal with pre-trial tax disputes and be in charge of hearing complaints on decisions taken by the officials of tax and customs administration.

Starting from August 1999, a rotation system of directors of regional offices is being implemented aimed at the development of competence of managers, further implementation of successful experience as well as to facilitate improvement of general performance of tax administration. In-service learning in the regional offices for the employees of the central office of SRS has been implemented aimed at improving the level of competence as well as to improve the linkage of the central office with the regional offices. Guidelines for time reporting system have been elaborated. Up to now, the time reporting system was implemented in 8 regional offices and proposals for improvement of work organisation and efficiency is elaborated for every regional office.

Human resources strategy is to be developed in the framework of PHARE Twinning project with the assistance of Swedish experts. 480 of the SRS pilot-region personnel have already enhanced their skills to prepare to work in the framework of new 3-level organisational structure.

In order to simplify registration procedure and to prevent duplication in registration SRS together with the Register of Enterprises are currently engaged in development of single register of legal persons.

Quality of audit of taxpayers` and investigation of cases of tax fraud has been improved. Methods of selection and priority criteria of tax audit have been defined for 2000. Methodological regulations *“On Control of Tax Assessment and Payment into Budget Account”* have been prepared. Methodological control guidelines have been developed. Particular attention is paid to the organisation of thematic controls and elaboration of respective methodological instructions.

Client-service halls are established in order to improve service of taxpayers as well as to prevent corruption. Currently taxpayers` service halls are operating in 6 regional offices.

As of November 1999, SRS homepage is available on the Internet containing general information on SRS, legal acts on taxation as well as templates of tax forms. Interactive hotline will be set up as well, to enable taxpayers to submit questions electronically. The work on the development of WWW oriented taxpayers service concept has been commenced.

The first stage of tax recording system is implemented in all the SRS regional offices. All the SRS regional offices are interconnected via national SRS network. In the effort to prepare to apply relevant *acquis* development of specific computerised systems and procedures in relation to the European Union (VIES, SPEED, Fiscal Sent) has commenced with support from Danish tax and customs administration. The assistance is delivered within the Danish-Latvian Sector Programme to cover the initial stage of this effort. It is envisaged that tax IT modernisation will be finished by mid-2003.

11. Economic and monetary union

The authorities have a clear-cut policy on the EMU: to pursue macroeconomic policies so that Latvia is ready to become a full-fledged member of the European Monetary Union after accession. The structure and objectives of the Bank of Latvia, the degree of its independence and the set of monetary policy instruments are in line with those defined for the European System of Central Banks.

Latvia is ready to fulfil Maastricht convergence criteria as a medium-term target. Already now Latvia complies or is close to complying with most of them:

- public debt is much lower than Maastricht requirements, i.e., 14% of GDP;
- there has been no budget deficit in 1997 and 1998; The government is intent on reducing the deficit below the Maastricht requirements' level in 2000;
- the national currency has been pegged to SDR at a constant exchange rate since 1994, and its fluctuation against the ECU (later EUR) at no point has exceeded $\pm 15\%$;
- annual average inflation has declined to 2.4% in 1999;
- Government bond yields rates, while still higher (9.1% for 5-year Treasury bonds) than Maastricht criteria are on the downward trend and Latvia will be able to meet the requirements in the medium-term.

During the pre-accession period, the exchange rate peg of the lat to the SDR will be maintained. This peg has ensured less exchange rate fluctuations than a possible peg to any single currency. In addition, the composition of Latvia's foreign trade by settlement currencies closely resembles the composition of the SDR basket, with USD being the major component in both.

12. Statistics

During 1999 the CSB carried out assessment of the statistical *acquis* in order to identify the areas where changes in the legislative acts of Latvia are needed. Consequently, the Regulations "*On national statistical information in 2000*" (December 1999) and amendments to the Regulations "*On a united classification system of economical information*" (January 2000) have been adopted.

In 1999 Eurostat PRODCOM list 1998 and the Classification of Products According to Activities (CPA) were introduced.

Considerable efforts have been made in order to ensure compliance of statistical information with EU standards, methodology and the "*Statistical Requirements Compendium*". The comparability of the statistical information on GDP with the EU Member States has been ensured. The results of the economical activity of small enterprises have been analysed, an innovation pilot survey, labour force and labour cost surveys have been conducted, special controls were worked out to improve foreign trade statistics data quality on customs procedures related to warehouses. Furthermore, methodology is being developed in fields such as statistical business register, household surveys and surveys of small and medium enterprises, investment surveys and surveys of prices of goods, tourism, innovation surveys, etc.

In December 1999 the Parliament adopted the law "*On Population Census*". The Population Census was taken this year in compliance with the United Nations Organisation and Eurostat recommendations to ensure internationally comparable statistical data. The first Population Census 2000 data will be published already in October 2000.

To prepare for the envisaged Agricultural Census 2001, an agricultural pilot census has been taken and the results have been analysed. A data basis for Farm Register has been established. Draft amendments to the law "*On Agriculture*" have been submitted to the Government. It is envisaged to take an Agriculture Census in Latvia once every 10 years.

In 1999 work was continued on the Data Management System which should be completed by the end of 2001. It is envisaged that the System will essentially improve the quality of the statistical data, speed up the generalisation of data and improve the efficiency of the work of the Central Statistical Bureau.

Administrative capacity. The Central Statistical Bureau (239 officials in the central office and 175

in the regional offices) is the responsible institution for the collection, processing and dissemination of statistical data in Latvia. The negotiations on the chapter "Statistics" are provisionally closed.

In 1999 the participation of CSB staff members in approximately 100 multi-country activities (mainly in macroeconomics, agriculture, foreign trade and social statistics) was ensured. 21 persons attended the Training courses of European statisticians (TES), 185 persons have attended in-house computer-training courses. In order to ensure the possibility to conduct Population Census 2000, in 1999 staff was increased in the central office of the CSB and in local statistical offices. All the necessary equipment and standard software for the Population Census was obtained, the data processing system was set up in May 2000. The CSB is working on improving data quality on foreign trade, macroeconomic statistics and real estate statistics.

Statistical co-operation with the EU has been increasing progressively over recent years, both on a bilateral basis with Eurostat (supported through the Multi-Beneficiary PHARE Statistical Co-operation programmes) and in the framework of international organisations such as the UN, ECE and OECD.

Under the Multi-Beneficiary PHARE Statistical Co-operation programme a number of pilot projects (Demography of Small and Medium Enterprises, Regional accounts, External trade, Government finance, Foreign Direct Investment, Prices, Exhaustiveness of national accounts) has been executed. With the support of the PHARE National Programme, the CSB has been provided with modern equipment and technology.

The CSB has several bilateral co-operation agreements with the National Statistical Offices (NSO) of EU Member States - Finland, Sweden, Denmark and Italy. Areas of co-operation include macroeconomic statistics, business statistics, hidden economy and social statistics.

13. Social policy and employment

Due to the general economic downturn as a result of the Russian financial crisis, the registered unemployment rate increased to 10% by July 1999, but then decreased to 9.5% in October 1999 and 8.6% at the end of May 2000. In February 2000 the Government accepted the National Employment Plan for the year 2000, based on principles similar to the EU Employment guidelines. Programmes for special groups among the unemployed, including the disabled and long-term unemployed, have been developed. Currently, the National Employment Plan for the year 2001 is under development. The plan is expected to be adopted by November 2000.

In 1999, 50.6% of all unemployed people, who received retraining, succeed in finding a job. Allocated funds for professional training and retraining from the state budget increased by 22.3 % in 1999 compared to 1998. Special attention has been paid to training in new technologies. In 1999 11% of unemployed retrained were prepared for work in different specialities connected with information technologies.

Substantial reforms in the field of social protection continue. One of the main elements of the reform is the creation of a new pension system consisting of three tiers. By entering into force of the law "*On State Funded Pension*" in July 2001 (adopted in February 2000) the pension system reform will be completed and the second tier pension scheme introduced.

The draft *Labour Code* was accepted by the Parliament in the 1st reading in April 2000 and is expected to be adopted by October 2000. In March 2000 the Government approved the draft law "*On the Protection of Employees in the Event of the Insolvency of Their Employer*". It is expected to be adopted by the end of 2000 and will come into force in January 2002. The draft law "*On information and consultation in Community-scale undertakings and groups of undertakings*" has been submitted to the Government. It is expected to be adopted by the end of 2000.

To protect the rights and interests of employees in case of labour disputes, the *White paper on Mechanism of Labour Dispute Settlement* has been approved (January 2000). A working group consisting of social partners is currently drafting the law "*On Labour Disputes Settlement*".

Equality of treatment in social security is ensured by amendments to the Law "*On State Pensions*" (November 1999) and amendments to the Law "*On State Social Insurance*" (November 1999.). The pension age is to be gradually equalised to 62 by the year 2009 for both sexes; equal conditions for early retirement were set. The spouses of self-employed persons may also join not only old age pension insurance, but also disability, maternity and sickness insurance on a voluntary basis. With the coming into force of the "*Labour Code*" and the law "*On Labour Protection*", the *acquis* on equal pay, equal access to work, protection of pregnant women at work, parental leave for child care and burden of proof in cases of gender discrimination will be fully transposed. In February 2000 the first case on equal payment of wages was brought to the self-employed persons in addition to old age pension insurance may join also to disability, court. The claim of the woman employee was fully satisfied. The analysis has been carried out of the legislation of Latvia and the politics implemented from gender perspective. On the basis of the undertaken research, the work has commenced on Concept Paper on National gender equality strategy, which is expected to be adopted by the Government by the end of 2000.

Pension age is being increased and the scope of socially insured persons extended. The rate of social insurance contributions will be gradually reduced reaching 33% in 2002, paid equally by the employer and employee (instead of 36% in 2000, 9% paid by employee and 27% by employer). In January 2000 a significant amendments to the law "*On Insurance against Unemployment*" came into force to increase the motivation of the unemployed to return to the labour market sooner. In February 2000 the Government approved a guaranteed and unitary applied minimum income level by adopting the *Concept Paper on Provision of Guaranteed minimum income level to needy persons*. It is envisaged that the law "*On Social Assistance*" will be amended by January 2001. With the assistance of the World Bank the health care system is being improved on the basis of four key points: institutional changes, improvement of financial flow, increasing the quality of health care services, and establishing the concept of family medicine.

The new "*Labour Protection Law*", transposing EU requirements on the introduction of measures to encourage improvements in the safety and health of workers at work is expected to be adopted by the end 2000 and to come into force in January 2002. Since October 1999 the normative acts transposing directives on manual handling of loads, work equipment and personal protective equipment have been adopted. The directive on minimum safety and health requirements at temporary or mobile construction sites will be transposed by September 2000.

To fully transpose the provisions of the Directive on the maximum tar yield of cigarettes and on labelling of tobacco products, the law "*On Restriction of Manufacturing, Sale, Advertising and Smoking of Tobacco Products*" has been amended (October 1999). The work has commenced on a "*Public Health Strategy*" which is to be ready by the end of 2000.

In order to prepare for membership of the European Social Fund (ESF) the establishment of administrative and co-ordination mechanisms and training of staff to work with the European Social Fund is set as a priority up to January 2003. The National Centre for ESF management training has been set up on the basis of the State School of Public Administration. These preparations are closely connected with EU PHARE projects activities, and particularly "Horizontal Special Preparatory programme for European Social Fund", realised by the European Training Foundation. Agency for Vocational Education Development Programmes under Ministry of Education and Science, in years 1999-2000 delivered the range of seminars and conferences at national and regional levels and study tour to EU member country on ESF issues within the ETF SPP.

In field of social dialogue, the new organisational structure of the National Tripartite Co-operation Council has been accepted in November 1999, establishing the Sub-Councils for Vocational Education and Employment, Labour Affairs, and Social Insurance. Social partners have agreed upon a procedure for the participation of trade unions and employers' organisations can in the legislative process. To move from tripartism to bipartism, a new approach has been introduced for the new legislation in the field of labour law, i.e., the government will set minimum requirements, while more detailed provisions concerning mutual rights and obligations can be set by social partners. At a sectoral level, the number of employees covered by collective agreements reached 216 113 in 1999.

The key institutions in the context of social dialogue are trade unions, the Latvian Employers' Confederation and the National Tripartite Co-operation Council. In 1999, a seminar on tripartite co-operation on national level and settlement of labour disputes was held in order to strengthen the capacity of social partners, and the Standing Order of the National Tripartite Co-operation Council, as well as competencies of its sub-councils, have been adopted.

Administrative capacity. In 2000 the European Integration Unit (3 employees) in the Ministry of Welfare was established to monitor issues related to EU integration, Europe Agreement, and the National Programme for Latvia's integration into the EU. In 2000 the Internal audit department (6 employees) in the Ministry of Welfare was established to supervise and audit internal control systems for state and EU funded programmes and projects of the ministry and its institutions. Practical skills for administrative and budgeting procedures of financial assistance of the European Social Fund are being acquired within the PHARE Decentralised implementation system.

The key institutions in the context of implementation and enforcement of the health and safety *acquis* are the Ministry of Welfare, the State Labour Inspectorate (181 employees, including 145 in 7 regional divisions), the State Sanitary Inspectorate (for hygiene issues, 180 employees), the Environmental Inspectorate, and the Maritime Inspectorate. Given the large number of actors, and their varying reporting lines to the Government, steps have been taken to ensure co-ordination between the four inspectorates by arranging quarterly meetings for the staff of these institutions.

Inspectors of the State Labour Inspectorate have undergone training courses aimed at raising the institutional capacity of the inspectorate in the field of asbestos, risk assessment, enterprise internal control procedures and enterprise rating systems. Special training was organised for regional inspectors on information technologies (62 regional inspectors were trained). With PHARE assistance special equipment and transport was purchased for the State Labour Inspection (including regional offices).

The Latvian State Employment service was re-organised as a non-profit joint stock organisation in 1999 in order to create an objective-based financing system. Computerisation of the State Employment Service is being carried out to improve information flow between the branch offices of the State Employment Service and to facilitate availability of information necessary for participation in the EURES network.

In order to apply the *acquis*, a continuous increase of employees' efficiency of the State Social Insurance Agency (1230 employees, including 1103 in 33 subsidiaries) is being carried out. The implementation of the new information technologies system is also taking place.

It is envisaged that efforts of the Ministry of Welfare supported by the EU PHARE 1999-2000 projects and bilateral projects with EU Member States will concentrate on strengthening administrative capacity. PHARE, including Consensus III programme, Pre-Ins Facility, bilateral projects, will support harmonisation of legislation and its implementation in the areas of labour law, occupational health and safety, chemicals, regional policy and cohesion.

14. Energy

The Government Policy in the Energy Sector (November 1999) includes policies in the energy, electricity and heating sectors, as well an action plan defining particular activities to achieve the establishment of a competitive Baltic energy sector in the liberalised electricity market in conformity with EU market liberalisation principles.

In February 2000 the Government accepted the *Concept on Establishment of Stocks of Petroleum Products*. Formation of oil stocks of a quantity equal to 90 days consumption could be completed by 2010.

The Energy Efficiency Strategy, providing a detailed plan for the implementation of the *acquis* in energy efficiency field, and participation in the SAVE II programme, is being prepared. Within the annual investment programme financial support of 3.113 million LVL for the implementation of energy efficiency and district heating projects is provided.

The legislation in the energy sector has partially been aligned to the *acquis*.

Energy efficiency. Regulations “*On Energy Efficiency of Household Electrical Refrigerators and Freezers and Evaluation of Compliance*” have been adopted (March 2000).

As regards the electricity sector, Directive 96/92 is transposed¹¹.

Regulations “*On Restructuring and Privatisation Conditions of the State Stock Company Latvenergo under Privatisation*” (February 2000) have been adopted.

The liberalisation and price formation process in the energy sector has stabilised. In tariff calculation, the Energy Regulation Council (ERC) uses the method of economic stimulation, where both the forecasted inflation and growth of the economic efficiency of the enterprise have been taken into account.

The ERC approved *The Methodology for Tariff Calculation for Transmission System Operator and Distribution System Operator Networks Services* (October 1999) stating that a tariff calculation methodology for transmission and distribution system network services shall be developed. In December 1999 the ERC approved the tariffs of electricity transmission and distribution network services according to the above-mentioned methodology.

The ERC approved the “*Order on Electric Energy Supply for Energy Consumers with the Direct Connection to Energy Producers*” (July 1999).

As regards the oil sector, Directive 94/22 has been transposed¹².

As regards hydrocarbon pre-investigation, exploration and extraction draft of *Concept State Oil Extraction Company of Latvia* offering options for the participation of the state in the project of oil investigation and extraction is under preparation. Regulations “*On State Fee on Oil Extraction*” (February 2000) establish the procedure of calculating and paying a state fee on oil extraction. A fee on oil is the charge for oil extracted in the territory of Latvia or exclusive economic zone.

In March 2000 the Parliament adopted the law “*On Regulation of Public Services*” in the 2nd reading. (see Chapter 2.2. Economic Criteria)

Administrative capacity. The regulatory institution in the energy sector from 1996 is the Energy Regulation Council (ERC) (10 members and 15 employees). The ERC licenses electricity, heat, natural and liquefied gas supply companies and approves tariffs calculated by energy supply enterprises in conformity with developed methodologies. By May 2000, the ERC has issued

licences to: 25 electricity supply enterprises; 83 heat supply enterprises; 50 liquefied gas supply enterprises and 1 natural gas supply enterprise, Stock Company Latvijas gāze, for storage, transmission, distribution, and sales of natural gas.

15. Industrial policy

The National Development Plan is important for revival and further sustainable development of national industry. With assistance of Danish and Finish Governments, seminars on environmental management in the food and pharmaceutical sector, and implementation of cleaner technology in the textile industry were organised. Further emphasis has been put on analysis of industry, defining comparative advantages. In compliance with Agenda 21 for the Baltic Sea Region -"Baltic-21", Latvian action for Sustainable Development in Industry sector has been elaborated. A Twinning project on Industrial policy with the Swedish National Board for Industry and Technical Development NUTEK will be commenced this year.

The Concept of Latvian Industrial Strategy sets up instruments with the aim to enhance competitiveness. The main directions of the Concept are the production of goods with high added value, attraction of investment, modernisation of technologies, innovations, improving professional skills, ensuring of the quality in compliance with EU requirements, export promotion, the use of domestic resources, improvement of business environment in order to encourage the establishment of new enterprises. Implementation will be ensured by the action plan over the next 5 years.

Industry is an important sector of the economy. In 1999, 15% of Latvia's GDP was generated by industry. The volume of manufacturing output in the first 4 month of 2000 was 103.4%, compared to the same 4 month in 1999. An increase in production output has been observed in the textile industry, wood processing, metalworking and pharmaceuticals.

The vast majority of industry is in private hands. More than 90% of the gross value added contributed by manufacturing was generated by the private sector. Successful privatisation of the industry attracted investments necessary for restructuring and rising competitiveness. In 1999 the manufacturing sector attracted 158.1 million LVL of foreign direct investment (20.2% of total FDI stock). In manufacturing, the wood processing and chemical sub-sectors attracted most of the foreign direct investment.

The competitiveness of industry has been further strengthened. Liberal trade (presently 80% of the total trade turnover takes place under a free trade regime) is a very important precondition for successful restructuring of the industrial sector. In 1999, 68.3% of the manufacturing output was exported. During 1999 exports of chemicals (to the EU) increased by 4.7%, wood and articles of wood by 7.1% and textiles by 1.8%.

16. Small and medium-sized undertakings

Currently SMEs account for 99% of enterprises registered in Latvia. About 65% of the economically active population is employed in SMEs. In 1999 more than 50% of Latvia's GDP was generated by SMEs. The SMEs dominate in the major export industries, such as wood processing, foodstuffs and textiles.

From the legal point of view, Latvian SMEs policy is aligned with EU requirements. The negotiation chapter "Small and medium sized enterprises" is provisionally closed. The Latvian SME Development National Programme for the period 1997 - 2001 is the policy framework document. A network of nine Business Advisory Service Centres (BASC) has been established. In addition, four Business Innovation Centres (BIC) have been established to support technology-oriented SMEs and promote the transfer of new technologies. The network of BASCs and BICs has been extended with

assistance from the PHARE SME support programme.

In mid 1999, the Government approved a Concept on Public Support to Entrepreneurship. The Ministry of Economy has developed and approved the order of partial public support for training of SMEs in 1999.

Activities in 1999 and 2000 were mainly oriented to improvement of the business environment and improvement of the access to investment financing for SMEs.

A number of actions were taken as a result of the action plan based on recommendations of the FIAS/LDA report *On Administrative Barriers* – (1) the procedure for obtaining work permits has been simplified; (2) the maximum rate of property tax has been reduced from 4% to 1.5% of the net value of buildings and constructions; (3) the Internet home page of the SRS is regularly updated with new SRS methodological guidelines and legislative amendments etc.

The Government accepted the SME loan project in November 1999. The aim of the project is to increase Latvia's SME competitiveness and to resolve financing problems of start-ups. The Latvian Mortgage and Land Bank will implement it as a pilot project. Involvement of banks will ensure efficiency of the financing system for start-ups and SME. By June 2000, 89 projects were financed, ensuring creation of approximately 300 new working places. Currently, SMEs are accumulating approximately 40% of issued loans.

17. Science and research

The chapter "Science and research" of the accession negotiations is already provisionally closed.

The legislation corresponds to EU legislation in the area of science and research. The Latvian national science and technology development policy is oriented to promote the Latvian research potential towards national priorities. The Ministry of Education and Science has defined priority research directions - information technology, organic chemistry, biomedicine and pharmacy, new materials and technologies, forestry and wood science.

Government expenditure for research and development in 1999 was 7.93 million LVL. In 2000 the Government expenditure was almost the same 7.99 million LVL, representing only 0.22% of the GDP.

Latvia and its scientific society have been fully associated to both the *EC 5th Framework Programme for RTD (1998 – 2002)* and the *Euratom Programme* since August 1999.

Latvia nominated representatives to all Committees of the *EC 5th Framework Programme for RTD* programmes. Experts have been approved for the expertise of project proposal.

Approximately 100 applications have been submitted in the calls for proposal in 1999 of the 5th Framework Programme. 25 project applications were confirmed for funding, totalling 1 326 000 Euro.

In May 1999 Latvia was officially admitted to the *EC COST Programme*. Latvia joined the *EC INTAS Programme* this year. Latvia participates in the activities of the *EUREKA* programme and will become a member in June this year. There are already 3 on-going projects and 1 finished project in *EUREKA*.

Administrative capacity. The implementation and administrative structures are in place. The National Contact Point of 5th Framework Programme with a permanent staff of 8 persons has been established.

The National Contact Point is an independent organisation formed by the Ministry of Education and Science together with the Latvian Council of Science. The Latvian NCP works under contract with the Ministry of Education and Science. Its main objectives are to assist on matters relating to research activities and to help to improve the quality of project proposals. The NCP organises information days on specific thematic programmes, seminars, conferences, workshops and training courses.

18. Education and training

The chapter “Education and training” of the accession negotiations is already provisionally closed.

Latvia is undertaking reform of the salary of educators, working out new curriculum standards to ensure the competence and the basic skills of learners and reforming the system of centralised examinations and the system of assessment of learners’ knowledge in basic and secondary education. Conceptual and legal provisions have been made to introduce the notion of: occupational standards, specifying the branch and occupation-specific requirements towards training, social partners involvement in the policy and strategy building process, first higher level (college) higher professional education and training stage in vocational/professional education. The conceptual preparations for decentralisation of vocational education and training administration are underway.

The legislation corresponds to EU legislation. The laws and “*On General Education*” and “*On Vocational Education*” (adopted in June 1999) determined the transition to the principle of curriculum and five professional qualification levels.

To implement the law “*On Education*” (adopted in October 1998) more than 15 Regulations have been adopted. New legal acts in the area of educational standards and standards of financing of education programmes are being elaborated.

Draft law “*On Regulated Professions and Recognition of Professional Qualifications*” has been submitted to Government (for more information see chapter *Free movement of persons*).

The academic recognition of educational qualifications in the Baltic educational space and a common educational space in general upper secondary education and vocational (up to higher education level) education within the Baltic States entered in force after the ratification of respective trilateral agreement (May, 2000). See chapter *Free movement of persons*.

In 1999 the World Bank approved a loan of 18.3 million LVL for the Education Improvement Project. The first reconstruction projects in 25 education institutions will be finished until September 2000. Under the sub-project “Education quality Programme” 9 seminars have been organised. In May, a delegation of the World Bank organised a 1-week seminar in Riga.

Latvia is undertaking reform in the vocational education and training (VET) system to increase the liability of the labour force to cope with the demands of a modern and dynamic labour market. The reforms are leading to a qualitative, accessible and flexible VET system, including regional training networks/consortia as important infrastructure in a productive and efficient training institution network. The two regional centres (Rēzekne and Daugavpils) have completed the pilot projects and established the conceptual bases for the organisation of centres for promotion of employment and professional education.

Since November 1998 Latvia participates in the Community programmes *SOCRATES*, *LEONARDO DA VINCI* and *YOUTH FOR EUROPE*.

The 1st phase of the programmes *SOCRATES*, *LEONARDO DA VINCI* and *YOUTH FOR EUROPE* has been successfully finished. In 223 projects during the 1st phase a total 239 teachers and

academic staff, 250 pupils, 295 VET students, 400 higher education students, 170 young people out of the formal education system, and 14 decision makers in the field of education and 82 young workers and job seekers were involved.

In May 2000 the Government accepted draft Association Council Decision adopting the terms and conditions for participation in the 2nd phase of the Community programmes in the field of training, youth and education.

Administrative capacity. Relevant national structures to implement the programmes at a national level are operating already, and adequate funding of these structures has been provided by the Ministry of Education and Science. For the Socrates programme – the Academic Programme Agency (employs 4 persons) acts as National Agency, for Youth – Youth International Programmes Agency (employs 4 persons) and for Leonardo da Vinci – the Leonardo da Vinci Latvian National Agency (currently employs 5 persons) located under VEDP. These institutions have been carrying out their functions successfully already from the programme's 1st phase.

The preparatory measures for establishing the National Resource Centre for Vocational Guidance (employs 2 persons) supporting transnational mobility and a European dimension in education and training, have been taken. Unit is established within the VEDP Agency.

19. Telecommunications and information technologies

Telecommunications

The policy framework documents *Telecommunication Sectoral Policy* for the period 1998 – 2003 and action plan are in place since 1998. Main actions of direction are: market, network and service liberalisation as well as definition of tariff policy, interconnection policy and telecommunications development policy in rural areas, role of the Communication department of the Ministry of Transport, and role of the National Regulatory Authority.

Latvia's goal is to be ready to implement EU legislation in the field of telecommunications by the year 2003.

The draft "*Law on Telecommunications*"¹³ was adopted by the Parliament in the 1st reading in March 2000. The Law envisages that the monopoly period of *Lattelekom Ltd.* will be reduced from 2013 to 2003. The law provides for the establishment of an independent regulator in compliance with the *acquis*.

In March 2000 the Parliament in the 2nd reading adopted a draft "*Law on Public Service Regulators*", which envisages to establish unified State public service regulations procedure and establishes legal framework for providing such services. The State's regulated public service industries are energy, telecommunications, postal services, railway transport and passenger transportation in cases, when special licenses will be issued by the State institution.

Lattelekom Ltd continues the modernisation of the public fixed network and has invested 47.8 millions LVL in 1999. 98 % of *Lattelekom Ltd* subscribers can make domestic and international calls without operator assistance. Expansion of the digital network is being continued. Advanced digital system technologies, trunk optical fibre cable network covers the whole country. Almost 3500 modern payphones have been placed in cities and have been connected to the digital network. Currently *Lattelekom Ltd* serves 732 000 telephone lines.

In 1999 *Lattelekom Ltd* concluded interconnection agreements with mobile operators *LMT Ltd*,

Baltcom GSM Ltd and the mobile ration operator *Radiokom* in accordance with the State Telecommunications Policy and EU directives. Competition between mobile market operators over the last two years resulted in rapid increase of mobile network users and expansion of mobile network coverage. The number of mobile network users has reached more than 311 000 in June 2000 i.e. an increase of ~86% comparing with the end of the year 1998.

Lattelekom Ltd has concluded co-operation agreements on data transmission services with the Lithuanian fixed public telecommunication operator *Lietuvas Telekomas* (December, 1999) and Estonian operator *Eesti Telefon* (March, 2000). Agreements will give the opportunity to entities, whose subsidiaries are located in the Baltic States, to connect computer networks in a unit real time or “on-line” information exchange network, using *Lattelekom Ltd* international services “Frame Relay” and “connection of computer networks”. The agreements envisage co-operation in providing services and quality supervision. Similar agreements will be concluded with *Cable & Wireless Global Market* and *Rostelecom International*.

The Communication Department of the Ministry of Transport became a member of ETSI (European Telecommunication Standards Institute) in November 1998. 33 European sound and TV standards and 8 of European telecommunication standards have been adopted.

The legislation in the postal sector is almost in line with the *acquis*. To transpose Directive 97/66, amendments in the “*Post Law*” were adopted by the Parliament in the 2nd reading in April 2000.

Information technologies. A policy framework is in place and budgetary support has been provided. The National Programme “*Informatics*” (Action Plan for years 1999 – 2000) was approved in March 1999.

The Government has adopted the *Concept for the Operation and Development of the State Information Network Agency (VITA)*(August 1999), an *Action Plan for the Implementation of the Integrated Information System of Registers of State Significance (Megsystem)* (September 1999) and the *Concept for Improvement of Public Services Provided by State and Municipal Institutions* (creation of Information and Service Centres) (December 1999).

Law “*On the Protection of Data of Natural Persons*” has been adopted in March 2000, to develop a basis for effective and secure system of natural persons’ data protection.

Approximately 35 *Internet* Service Providers (ISP) are operating. The most popular types of communication are 56K and ISDN dial-up connections. Approximately 18 500 *Internet* hosts in January 2000 were registered by the RIPE Network Co-ordination Centre in comparison with 13 500 hosts registered by December 1998, which gives more than 100 000 total *Internet* users. The total *Internet* bandwidth from Latvia is over 15 Mbit and is growing rapidly. Several ISPs are offering unlimited access dial-up connections.

The multi-annual *Latvian Education Informatisation System* project is being financed by the State Investment Programme and has been implemented from 1997. Under the Project the creation of infrastructure, training of instructors and users, the elaboration of education programmes, the computerised education system management, introduction and upgrade of different information services.

From 1997 to 1999 a Consortium consisting of 8 scientific and academic libraries implemented the *Integrated Library Information System (LATLIBNET) project*. The Project was financed by the State Investment Programme and supported by the Andrew W. Mellon Foundation. In 2000 the LATLIBNET Project will be developed to integrate regional libraries.

The State investment project of the *Unified Information System of Local Authorities* begun in

January 2000. The 1st phase of the Project will allow a nation wide replacement of the existing population registration system based on passports by identity cards.

The project of creating access points to the *Internet* in less developed regions of Latvia started in late 1999 by the support of the Soros Foundation Latvia.

The Baltic Government Data Network Project is to be considered as the expansion of the Megasystem on an international scale. The concept envisages developing the Baltic Network as a pilot stage for the integration of national information systems in Trans-European systems such as IDA (Interchange of Data between Administrations).

Administrative capacity. A frequency spectrum administration computer system, mobile radiomonitoring and directional system, stationary short and medium wave monitoring and directional station (can be used in all three Baltic States), radiocommunication and telecommunication certification laboratory have been established and introduced from January 2000. The Latvia State Telecommunication Inspection (established in 1997; 65 employees) provides full electromagnetic system compatibility of wireless radioelectronic communication equipment in Latvia since January 2000. The Administration of the radiofrequency spectrum has been established in compliance with EU standards and recommendations. The Co-ordination Board for the National Programme *Informatics* was formed in November 1997 followed by the formation of Boards of Informatics in all ministries during 1997-1998. It is expected the Data Protection Inspection will be established by the Ministry of Justice and will become operational from the year 2001.

20. Culture and audio-visual policy

Legislation is already to a large extent aligned with the *acquis*. The general State policy in the audio-visual field is based on two principles – raising the output of the industry and joining in the European production and distribution networks in order to make our possible contribution to the European cultural diversity at the earliest opportunity.

The law “*On Radio and Television*” is virtually aligned with the *Television without Frontiers* (TWF) Directive. Last amendments to the Law entered into force in November 1999. The European Commission's evaluation and detailed analysis of it has been received in May 2000. European Commission in its opinion stated that the transfrontiers aspect of the Latvia law “*On Radio and Television*” is not sufficiently expressed. It concerns the jurisdiction criteria and public access to the major events; the definitions of broadcaster and independent producers need to be made more accurate. The wording of some provisions, like the field of application of the application of the selection treating of the proportion of European works, should be made more rigorous. Working group is already drafting the amendments. The draft will be send to EC at the beginning of July for evaluation. Provisions of the TWF Directive such as the proportions of European works, the 10% share for independent producers, the advertising and teleshopping rules have already been introduced.

Latvia intends to join the *Protocol Amending the European Convention of Transfrontier Television* though it considers the alignment with TWF Directive as a priority.

Administrative capacity. The existing administrative and implementation structures are in place. The independent regulatory body is the National Radio and Television Council (NRTVC), which currently employs 21 persons (9 persons elected by Parliament). The NRTVC shall represent the interests of the public in the field of electronic mass media and supervise the latter so that in their operations the Constitution, the law “*On Radio and Television*” and other laws are observed and the freedom of speech and information are ensured. It announces tenders for terrestrial frequencies, issues broadcasting licences and retransmission permits and monitors the activities of broadcasting

organisations.

In March 2000 the Parliament adopted amendments to the “*Administrative Code*”, extending the liability for violations of the advertising rules, infringements of the law “*On Radio and Television*” to legal persons while previously only physical persons were held responsible. The amount of fines has grown considerably (to LVL 1500 – 2500 or about 2000 - 4000 Euro). Making use of the new possibilities, the NRTVC has brought to trial a broadcaster for illegal retransmission.

The law “*On Advertising*” (into force since January 2000) gives the right to the NRTVC to directly ban illegal advertising material from being broadcasted.

The film industry is a part of culture heritage. To rise the output and competitiveness of the Latvian film industry, Latvia will take part in the MEDIA PLUSS programme starting in 2001. State aid is in conformity with the actual budgetary possibilities and covers about 37% of the industry budget. The industry is fully adapted to the market economy.

The new *Culture 2000* programme was established at the beginning of 2000, and Latvia is going to take part in this programme. Riga has been selected to host the European Culture month in 2001.

Latvia joined the *Raphael* programme in December 1998. Representatives of Latvia have participated in the expert working group and evaluated the project applications. One project with Latvia’s partnership has been supported.

21. Regional policy and co-ordination of structural instruments

Basic regional policy guidelines were established with approval of the *concept of regional development policy* (1996). Presently the policy of regional development has become one of the key priorities in Latvia.

In October 1999 the Government approved the first project of National Development Plan (pNDP). The revision of pNDP started in January 2000. In March 2000 the Government made a decision that NDP should be deemed a medium-term strategic intersectoral planning document both analysing situation in Latvia and determining development priorities for next six years. This document is to be used as basis for awarding public investment. Significant task of the NDP is also to integrate other medium and short-term strategic planning documents of both national and regional level. NDP preparation process is closely linked to the programming of the EU Pre-accession financial instruments in Latvia for 2001. After revision the NDP should serve as the basis for further operational programming of the EU Pre-accession financial instruments and national funding targeted to development.

In April 2000, NDP Steering Group was formed to monitor and manage the preparation of NDP and intersector NDP Unit was formed to ensure the preparation of NDP in close co-operation with regions and partner institutions. It is envisaged that the first draft of the revised NDP will be submitted to the Government by October 2000. Further improvement and revision of the NDP will be continued annually.

On April 4, 2000 the Government has decided on formation of 5 planning regions at NUTS 3 level for planning purposes. 4 out of 5 planning regions have been established as joint initiative of local governments of the regions. The ability of the planning regions to participate in the implementation of the EU Pre-accession Financial Instruments and, later, in the work with Structural funds will be raised via implementation of PHARE ESC Programme. Two targeted regions have been determined for PHARE Programme 2000 in Latvia, i.e. Latgale and Zemgale.

It is envisaged to prepare regional development plans for five Planning Regions. Preliminary development strategy for Latgale was adopted in October 1999, for Zemgale in May 1999, for Riga in February 2000 and strategic priorities of the development of Vidzeme planning region – in April 1999.

In June 2000 the Government established the working group to clarify implementation of regional policy. This group is to elaborate a document, which will determine the responsibilities of government institutions by October 2000.

Administrative capacity. Administrative structures managing cohesion instruments and future structural funds were established at regional and local level. MEPRD has developed concept “*On the Formation of Regional Development Agencies*”.

Latgale Development Agency was formed in September 1999, Zemgale Development Agency was formed in April 7, 1999 and Vidzeme Development Agency – in May 2000. PHARE 2000 project “Promotion of Regional Development” will ensure the increase of the administrative capacity of these agencies. The formation of agencies will be fully completed by June 2001 to ensure regional contribution into the planning, implementation and monitoring of decentralised regional policy.

The Government has introduced the principle of long-term budget planning in the “*Law of Budget*” for 2000. The Ministry of Finance has undertaken to draw a medium-term budget starting from 2001.

Restructuring of the local statistical offices is linked with envisaged state administrative reform. The Central Statistical Bureau is to elaborate regional reorganisation plan by October 2000. The plan foresees to reorganise 26 existing regional offices to 5 offices in 5 planning regions. The restructuring the functions of these offices will be organising the flows of statistical information within regional territory. The central office will continue methodological guidance.

As regards Territorial and Administrative reform, by the year 2000, investigation of 16 district administrative territories has been carried out covering 333 rural districts and towns. As a result of the investigation, proposals have been prepared for the reform of the local government in 95 united governments or local government confederacies. By 2000, 16 local governments have united by setting up 6 amalgamated local governments, including 2 provinces, and several confederacies of local governments have been formed. The concept of the reform of the regional administrative territorial division has been prepared.

22. Environment

Latvia’s target date for transposition and implementation of the majority of the environmental *acquis* is 1 January 2003. Noticeable progress has been achieved in almost all environmental sectors, especially in air quality protection, waste and water management, and reduction of industrial pollution.

Implementation programmes including preliminary cost assessments for all environmental sectors (horizontal, water, waste management, air protection, industrial pollution, radiation safety, noise, nature protection, chemical substances and genetically modified organisms) have been prepared. They are in line with the ongoing investment programmes. Separate investment programmes have been established for hazardous waste, solid waste and water services in small and medium sized town. Programmes are in line with the National Programme for Integration into the EU.

Latvia is at an advanced stage in the field of framework legislation: air quality, bathing water, waste

management – are fully in line, and work has been accelerated in nature protection and radiation protection legislation.

Air Quality and Climate Change Mitigation: Further progress has been achieved regarding transposition of the Air Framework Directive (96/62)¹⁴ and its daughter directives, as well as Directives on Fuel Quality¹⁵. Directive 94/63 has been fully transposed¹⁶. Regarding ozone layer protection the Government has adopted Regulations “*On the signing of Geneva Protocol to Abate Acidification, Eutrophication and ground-level ozone to the 1979 Convention on Long-range Transboundary Air Pollution on Further Reduction of Sulphur Emissions*” and “*On Signing to Montreal Amendments to Montreal Protocol “On Substances Depleting Ozone Layer”*” (November 1999). Latvia fulfils provisions of EC Decision 93/389 (with amendments of 1999) “*For a monitoring mechanism of Community CO₂ and other greenhouse gas emissions*”. The Third National Communication of the Republic of Latvia under the United Nations Framework Convention On Climate Change requirements, as well as on the supplements to the climate change mitigation policy is under preparation.

Administrative capacity. Institutions for implementation of the air sector requirements are in place. The Latvian Hydrometeorological Agency (subordinated to the Ministry of Environmental Protection and Regional Development from 1996; ~450 employees) is responsible for air monitoring and ambient air quality and will be responsible for designating zones in relation to air quality. The Environmental Consulting and Monitoring Centre (established in 1995; 19 employees) is responsible for developing the monitoring programme and reporting on the status of the environment. The Latvian Environmental Data Centre (established in 1989; 79 employees) provides methodological guidance to regional laboratories and manages databases, acts as the National Reference laboratory, provides an adoption of the international (ISO) and EU standard methods in practice of environmental quality testing laboratories for air emissions testing from stationary air pollution sources. Regional Environmental Boards (~ 500 employees) are in charge of co-ordination of emissions monitoring, for control measures, will be responsible for co-ordination of action programme development. The State Environmental Inspectorate (established in 1993; ~70 employees) is responsible for control measures and enforcement actions.

As a result of the Twinning project “*Institutional strengthening of Latvian environmental administration for implementation and enforcement of EU environmental legislation*” there are – updated Sectoral Implementation Programmes; proposals for content of “*Environmental Protection Law*”, assistance in the elaboration of the law “*On Pollution*”, a proposal for regulations for the implementation of environmental quality standards and the co-ordination of the law “*On Pollution*” and Environmental Impact Assessment procedures; *Environmental law course* with 8 representatives from MEPRD, 4 regional seminars for a total number of ~120 participants on the topic *Implementation of EU legislation and general EU policy issues*, seminar *Swedish experience in negotiations with EU* as well as a seminar for the law “*On Pollution*” and Water Framework directive were organised.

Waste management: The draft law “*On Waste Management*” has been submitted to the Government. Regarding hazardous waste, amendments to the Regulations “*On Classification of Hazardous Waste and Hazard Criteria*”, were adopted in January 2000. Landfill Directive 1999/31 has partially been transposed¹⁷. EU requirements on municipal waste incineration have been transposed¹⁸.

Administrative capacity. Institutions for the implementation of waste legislation requirements are in place. The Ministry of Environmental Protection and Regional Development (3 employees) is responsible for policy-making, draft legislation and waste management plans at national level. State Environmental Inspectorate (7 employees). Latvian Environmental Data Centre (1 employee)

complies and processes data regarding the production and disposal of hazardous waste. Environmental Consulting and Monitoring Centre (1employee) prepares and distributes environmental information. Regional Environmental Boards (16 employees) is responsible for control of waste management, issues permits for activities with hazardous waste, issues permits for recovery and disposal of municipal waste, registers enterprises involved in collection, treatment, transfer and transportation of municipal waste. State Enterprise “Vides Projekti” (Environmental Projects) Hazardous waste management project implementation unit (2 employees) is responsible for strategic and investment plans for hazardous waste management. Unit (7 co-workers) for the implementation of National municipal waste management strategy (1998) Programme *500minus* – the “*National Strategy for Management of Municipal Solid Waste in Latvia*” has been established.

Water management: EU requirements in water sector are partially transposed¹⁹. The framework law “*On Pollution*”²⁰ setting the general framework for all environmental pollution, was approved by the Government in June. The law will transpose most EU requirements in the water sector. It is expected that the law will be adopted by the end of 2000. The draft law “*On Water Management*” has been prepared in order to transpose the basic requirements of the EU Water Framework directive.

Administrative capacity. Institutions for the implementation of water sector requirements are in place. Besides the Ministry of Environmental Protection and Regional Development (MEPRD), the Ministry of Welfare (drinking water, bathing water) and the Ministry of Agriculture (agricultural pollution) are responsible for the implementation of the water sector requirements. MEPRD (5 employees) is responsible for policy making, preparation of water management plans and action programmes, designation of river basins, designation of sensitive areas and vulnerable zones and for international co-operation in the water area. Under MEPRD the responsibilities are shared as follows: the Latvian Hydrometeorological Agency (~50 employees) operates monitoring stations for recording the quality of waters. The State Geological Survey (established in 1993, from 1995 under supervision of the Ministry of Environmental Protection and Regional Development; ~100 employees, 20 of them working with water issues) - responsible for ground water monitoring. The Environmental Consulting and Monitoring Centre (5 employees) – responsible for surface water monitoring and providing information on the status of inland waters. The Latvian Environmental Data Centre (5 employees) provides methodological guidance to regional laboratories and manages databases, acts as the National Reference laboratory and provides an adoption of the international (ISO) and EU standard methods in practice of environmental quality testing laboratories. Regional Environmental Boards (30 employees) are in charge of co-ordination of emissions monitoring, and currently also for control measures, but will also be responsible for co-ordination of action programme development. State Environmental Inspectorate (5 employees) is responsible state-wide control measures and enforcement actions. The State Enterprise “Vides Projekti” (10 employees) is responsible for co-ordination and implementation of environmental projects including the State Programme “800+” on the improvement of water supply and collection and treatment of sewage for small towns in Latvia, and project of strengthening of banks of hydroelectric power station dams. The Latvian Food Centre (18 employees), which is a subordinated institution to the Ministry of Welfare, is responsible for drafting the new regulation on drinking water. Ten Regional Environmental Health Centres and one National Environmental Health Centre are responsible for monitoring bathing water quality.

Water management projects are in various stages of implementation in 60 towns: projects have been completed in 6 towns, 22 are at the implementation stage, 33 have been initiated or the feasibility studies have been finalised. In 4 towns the preparation of drinking water is already going on according to EU standards.

Industrial Pollution and Noise policy: Directives 84/360, 88/609 and 89/369 have been fully

transposed²¹. To transpose the Directive 96/61, the draft law *“On Pollution”* has been elaborated. The law *“On Pollution”* with subordinated regulations and the following adjustment of environmental institutions will allow the issuing of integrated permits from 2001. The draft Regulations *“On Application of Permit, Permitting and Use of Best Available Techniques for Category A (IPPC) Polluting Activities”* and *“On Noise Emissions from Household Appliances”* have been elaborated. To transpose the Seveso directive draft Regulations *“On the Procedure for Risk Assessment of Industrial Accidents and Risk Reduction Measures”* have been prepared. Regulations *“On Noise from Equipment Used Outdoors”* are under preparation.

Administrative capacity. Institutions for the implementation of industrial pollution sector requirements are in place. The institutional scheme in industrial pollution sector has been specified by defining the State Environmental Impact Assessment Bureau (SEIAB) (established in 1999; 13 employees), which will become the central competent institution and will be strengthened with additional human resources from 2001. Regional Environmental Boards (REBs) will issue all kind of permits. The State Environmental Inspectorate (SEI) will be responsible for inspections. Regarding the Seveso directive the institutional responsibilities will be shared between the Ministry of Environmental Protection and Regional Development (REBs, SEI, SEIAB) and the Ministry of Interior (State Fire-fighting and Rescue Centre). Regarding Noise from Household appliances the *Consumers Protection Centre* should be the responsible institution. The institutional responsibilities for the noise from equipment used outdoors will be shared among the Ministry of Environmental Protection and Regional Development, the Ministry of Economics and the Ministry of Welfare.

Radiation safety: The Government has adopted Regulations *“On Radioactive Waste Management”* (August 1999). The new law *“On Radiation Safety and Nuclear Safety”* was adopted by the Parliament in the 2nd reading in May 2000. Amendments to the *“Administrative Penalty Law”* (March 2000) with respect to enforcement functions of Radiation Safety Centre have been adopted. *The Concept on Dismantling of the Nuclear Research Reactor in Salaspils* (October 1999) has been adopted. The necessary measures for safe maintenance of the reactor until its dismantling have been implemented. The Government in February 2000 adopted the decree *“On the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management”* and approved the Model Safeguard Protocol (related to the Non-proliferation Treaty of nuclear weapons) on February 2000.

Administrative capacity. There are several state institutions at present involved in radiation safety. The total number of full time employees is approximately 25. During 2000 training has been provided. The total training time already exceeds 30 weeks (average 2–3 weeks per person), but by the end of year will be at least 60 weeks. After the establishment of the Radiation Safety Centre it will become a state regulatory body under the authority of the Ministry of Environmental Protection and Regional development and will carry out state supervision in the field of radiation safety and nuclear safety with an overall aim to protect the public, workers and the environment against harmful effects of ionising radiation, as well as to enhance international co-operation in this area. The Centre will also maintain data bases about exposure of workers and public, radiation sources, radiation workers and workers related to work with increased natural radiation, organise and co-ordinate training of inspectors related to radiation safety and job operators. The Centre will have 30 full time employees, some of whom already are involved in relevant activities in existing institutions.

Chemicals: The Government has adopted Regulations *“On the Classification, Packaging and Labelling of Chemical Substances and Chemical Products”* (June 1999) and *“On the Restrictions and prohibitions of the Use and Marketing of Dangerous Chemical Substances and Dangerous Chemical Products”* (April 2000).

Administrative capacity. The Chemicals Bureau (established in January 2000, 3 employees) is a structural unit of the Latvian Environmental Data Centre. The Bureau establishes, holds and updates the registers (data bases) of chemical substances and chemical products according to the national legislation including inventories of existing chemicals, EINECS, ELINCS and annex I of 67/548 and shares the information, prepares technical documentation referring to the handling and accounting of chemical substances and chemical products; stimulates public awareness about environmentally friendly and safe use of chemical substances and chemical products. The Bureau will be a competent authority to whom notifications of new chemical substances will be submitted. In future the Bureau will be responsible for evaluation and risk assessment of new substances, management of risk assessment of existing substances and it will share responsibility with the Ministry of Welfare for authorisations of biocides

Genetically modified organisms (GMOs) and biocides: In the framework of the PHARE project *Approximation of Latvian Legislation (ALL)* the “*Report on Adoption of a Regulation Transposing EC Directive 98/8/EC Concerning the Placing of Biocidal Products on the Market in Latvia*” was prepared in November 1999. Directives 90/219 and 90/220 and the correspondent EC Decisions will be fully transposed with the adoption of the Regulations “*Procedure for the Use and Distribution of GMOs*” and “*Statutes of the Genetically Modified Organisms Monitoring Council*” (submitted to the Government in February 2000).

Administrative capacity. The Genetically Modified Organisms Monitoring Council will be the main co-ordinating institution with respect to GMOs. The draft legislation sets responsibilities for other institutions in this area, including the Latvian Food Centre, the State Environmental Inspectorate.

Environmental Impact assessment and environmental information: The amendments to the law “*On Environmental Protection*” adopted in June 2000 fully transpose EU requirements on Environmental information. The Regulations “*On Environmental Impact Assessment Procedure*”, adopted on June 1999 almost fully transpose EU Directives. To achieve full transposition with the Environmental Impact Assessment Directive (provisions for transboundary impact) it is foreseen to adopt the amendments to the law “*On Environmental Impact Assessment*” by July 2001.

Administrative capacity. The State Environmental Impact Assessment Bureau (13 employees) operates since January 1999. Informative materials on the Environmental Impact Assessment System and legal acts have been prepared. Training programme (seminars and working groups) for the parties involved in the environmental impact assessment was carried out in the framework of the Latvian – Finnish EIA project in 1999. The National Focal Point of the European Environment Agency (EEA) (established in 1996; ~10 employees in Latvia) in Latvian Environmental Data Centre and national network within the European Information and Observation Network (EIONET) was established in conformity with the EEA requirements in 1996. Staff has been trained. Within the national network there are 4 main institutions involved in the EEA EIONET activities: the Ministry of Environmental Protection and Regional Development (MEPRD), Latvian Environmental Data Centre, State Hydrometeorological Agency and State Geological Survey. The total number of people involved on a regular basis is about 12. Staff has been trained and consulted by experts of the EEA. Internet home pages have been created in the environmental information field for MEPRD and 14 subordinated institutions.

There were 2 technical assistance projects with Finland. One is the Finnish Latvian joint project on Environmental Impact Assessment system development in Latvia, January 1998 – December 1998. The second one is the Finnish Latvian joint project on implementation of Environmental Impact Assessment system in Latvia, January 1999 – December 1999. The prepared legislation was based on these projects.

Nature protection: The framework law “*On Protection of Species and Habitats*” (March 2000) for the most part meets EU requirements of the Birds and Habitats Directive. The law defines specially protected areas and sites covering both the Birds and Habitats Directive. A number of laws on nature reserves and on national park was adopted on March 2000. The laws define the functions of State nature reserves and of the State nature park more precisely and make changes in their administration. Latvia continues to harmonise the legislation with provisions of the Nature Protection Directives²².

Administrative capacity. The Nature Protection Division (established in 1993; 6 employees) (the Ministry of Environmental Protection and Regional Development, the Environmental Protection Department) is responsible for the preparation of legislation, co-operation with international organisations of nature conservation. CITES Management authority (6 employees). Nature Management and State Register division (established in 1993; 3 employees) is responsible for protected areas database, permitting. Latvian Environmental Data Centre is responsible for maintenance of databases, Clearing House Mechanism (established in 1996; 1 employee), State Environmental Inspectorate (3 employees) has the control function. Regional Environmental Boards with 24 local branches have totally 24 inspectors. *Slītere* National Park administration - 36, *Ķemeri* National Park - 15, *Gauja* National Park - 120, *Teiči* Nature reserve - 21, North *Vidzeme* Biosphere reserve – 8 employees. Some protected areas are managed by NGOs, not financed directly from State Budget (for example: *Engure* lake fund, *Pape* lake fund).

There have been 2 training courses for inspectors for implementation of the Birds and Habitat directives (each for 35 persons), for training of trainers in Denmark – 10 persons, for Nature Protection division – 5 persons in Denmark and Ireland, in management, communication, public relations – under different projects.

23. Consumers and health protection

The national legislation on consumer and health protection is in conformity with the *acquis*. The new “*Consumer Rights Protection Law*” (adopted in March 1999, replacing the law of 1992) is in line with most of the EU directives in area of consumers and health protection legislation. To complement this general law, the “*Advertising Law*” was adopted in December 1999 (in force since January 2000), implementing the directives on misleading and comparative advertising. The “*Product and Services Safety Law*” and the law “*On the Liability for the Product or Service Deficiencies*” (both renewed in June 2000) supplement the legislation on market surveillance with provisions on general product safety and product liability. The laws are also supplemented by the general rules of the Civil Law. Following these laws, regulations implementing the Directives on Doorstep Selling, Distance Selling, Consumer Credit, Travel Packages, and Timeshare have been adopted. Most of the activities in the area of consumer rights protection have been carried out as subprograms of the Quality Assurance National Programme (1994).

Administrative capacity. Implementation of legislation on consumer protection is supervised by the Consumer Rights Protection Centre (34 employees). There has been significant increase in the consultations and complaints reaching 6000 complaints per year, compared to 4000 complaints in 1998. The Centre receives and handles about 600 written complaints each year. In 1999 about 2000 control activities were carried out. For improving the market surveillance carried out by the Consumer Rights Protection centre, the implementation of ISO 9001 standard has been started in the Centre. (For information on Market surveillance, see chapter *Free Movements of Goods*)

The Latvian Consumer Organisations Association was established in 1999. According to the Consumer Rights protection Law of 1999, non-governmental consumer organisations have the right to bring an action to court for protecting consumer rights and interests and to represent consumer interests in the court.

A Rapid information exchange system (TRAPEX) between Central- and Eastern Europe country contactpoints on dangerous products has been created.

For the strengthening of administrative capacity of the Centre, “Standards” training courses were held for its staff in the framework of the Regional PHARE PRAQIII Programme and National PHARE Programme. More than 25 employees have been trained concerning: different “new approach” directives; specific consumer legislation; consumer complaints handling; market surveillance activities. In the framework of the PHARE “Standards” project the Centre has been provided with office equipment and computers, the database for the Centre has been elaborated, and several informative booklets have been prepared and published.

24. Justice and Home Affairs

Judicial co-operation. Latvia has ratified all the relevant Conventions of the Council of Europe in the field of judicial co-operation. Legislation on judicial co-operation in criminal matters, which will cover all fields of co-operation in criminal matters, is under preparation.

Latvia has a split responsibility with regard to international judicial co-operation. In the draft legislation on international judicial co-operation it is suggested that only the Ministry of Justice and Prosecutor-General will be nominated as central authorities.

The EU Twinning project “Court system reform” is being implemented with the aim to establish an up-to-date efficient judicial system and judicial co-operation arrangements.

The fight against organised crime. In December 1999 the Secretariat of Crime Prevention Council of Latvia was established consisting on the representatives of the Ministry of Interior, Ministry of Justice, Ministry of Finance, Ministry of Foreign Affairs, General Prosecutor’s Office, in total 8 persons.

The Programme for Prevention of Sexual Abuse of Children and the Corruption Prevention Programme were adopted in January 2000 and in April 2000 respectively.

The service regulations both on the level of the central administration of the Ministry of Interior (MoI) as well as institutions under the supervision of the central administration have been developed. The Internal Audit Unit (in total 9 persons) for revision of the functions in the MoI and its subordinated bodies has been established. The EU Legislation Harmonisation Division (in total 4 persons) and the Division for the Reconstruction Control of the Eastern Border (in total 11 persons) have been established. The first stage of reorganisation of the Criminal Police of Latvia has begun and the First Concept of the Reorganisation has been introduced.

The turnover of police staff is constantly decreasing and in the first five months of this year comprised 2%. The Action plan of the MoI foresees to work out the amendments in legislation for the improvement of status of salaries and social guaranties for Police personnel.

The special computer system for the annual improvement of qualification of the police staff and the career-planning systems will be implemented by the end of 2000. The Police Academy of Latvia and the Training Centre of the State Police provide regular training for the personnel of the State Police. Currently there are 98 full-time trainees and 150 part-time trainees. In 2000 the Training Centre has organised 2 one-week qualification improvement courses for 82 police officers. 551 police officers are studying at the Police Academy, 154 police officers have completed training courses organised by the Information Centre of the Ministry of Interior, 24 officers of the Economic Police have been trained at the Banking College and 93 officers have been trained within the Co-operation Agreement between Latvia and Sweden.

The Programme for the Improvement of Material and Technical Provisions runs until the year 2003 and with a following-up period till 2007.

In November 1999 the Anti-Smuggling Centre was established. 25 employees from of the State Revenue Service, the State Police, the Security Police, the General Prosecutor Office and the State Border Guard work in the centre.

Co-operation between the institutions fighting against organised crime has been improved through co-operation agreements: the Agreement between the State Police and the State Revenue Service (SRS) has been concluded to provide the police with online access to information stored in the database of the SRS; the Co-operation Agreement between the Customs Board and the Drug Enforcement Bureau was concluded; an Agreement was signed between the Financial Police, the Economic Police and the Company Register on Location and Liquidation of Fictitious Companies.

The structure of the Drug Enforcement Bureau has been strengthened. Five regional groups of the Bureau have been established, thus the number of officers working with under-age persons and fighting against organised crime and drugs in prisons has increased by 35. The national Contact group with Europol's Drug enforcement unit has been established.

The regulation "*On the Division of Narcotic Drugs and Psychotropic Substances in the Illegal Circulation According to Their Quantities*" came into force in January 2000. The Regulations define those quantities of narcotic drugs and psychotropic substances in illegal circulation, which are subject to criminal liability. The Amendments to the law *On the Procedure of Legal Circulation of Narcotic Drugs and Psychotropic Substances* were adopted in January 2000.

In co-operation with the Narcology Centre of the Ministry of Welfare, educational materials and informative booklets have been developed and disseminated. Seminars to improve co-operation, co-ordination and information exchange between state and non-governmental organisations have been organised. In co-operation with the Judicial Training Centre regular training seminars have been organised for the staff of the Drug Enforcement Bureau, specialists from the Drug Addiction Treatment Centre and specialised prosecutors and judges.

The Programme for establishing of a special Vice Squad in Latvia was submitted to the Government in April 2000. The Vice Squad will be established to combat trafficking in human beings as well as sexual exploitation including child pornography. The Programme envisages introducing changes in legislation, to create regional vice squads and to ensure multi-disciplinary co-operation.

In second half of 1999 the special Division for Fight against Car Thefts with 80 staff of police officers in the Main Criminal Police Board of Riga City has been established.

The Agreement between the Governments of Latvia, Estonia and Lithuania on Co-operation in Protection of Witnesses and Victims was signed, and has entered in to force in June 2000.

In May 2000 the working group for Latvia's preparation to sign the agreement with EUROPOL was established. It is planned to sign the agreement in 2001. The first liaison officer will be seconded to Moscow in the second half of 2000. The Ministry of Interior has allocated the necessary financial resources for a liaison officer to EUROPOL in 2001 and to Poland in 2002.

Border Control. Strengthening of the national border guard system continues. Altogether, 14.1 million LVL have been allocated from the State budget to the needs of the border guard, including 10.8 million LVL for the maintenance and development of the Border Guards and 3.2 million LVL for border construction works (investments). Funds allocated from the EU in 2000 are for implementation of the PHARE 98 Programme 0.7 million Euro, for the PHARE-99 Programme 3.2 million Euro.

Eastern border. At the end of 1999 as the result of the restructuring of the State Border Guard the number of personnel involved in the protection of the Eastern Border is approximately double that of the personnel involved in guarding the border with Lithuania and Estonia.

In 1999 the establishment of the State Eastern Border unified management and guarding system was started, including management software “Thombord”, equipment for video and night surveillance, sensor systems, data communication systems and modern equipment for mobile patrols.

This year within the State investment Programme, 2 surveillance towers on the Russian border, 2 Border Guards divisions (Ģēkaune, Piedruja) and 2 border-crossing points (Kaplava, Vorzova) were built. Construction of 4 surveillance towers on the Belarussian border was launched. This year 1.65 million LVL are allocated from the state budget, as well as the PHARE-99 funding in the amount of 1.42 million LVL. In February 2000, the border control point at Grebņeva was completed.

From 10 October, 2000 the visa regime will be implemented according to the Decree on the Latvian - Russian Agreement on Denouncement of simplified border-crossing order.

The Baltic states. In May 2000, according to the co-operation agreement between the police, customs and border guarding authorities of Finland, Latvia, Lithuania and Estonia on combating cross-border crime border control procedures are carried out only in regard to incoming flow. The joint border control procedure has been introduced in all border control points on the border with Estonia.

Since December 1999, there is an electronic data exchange on the common border control points of Latvia and Estonia.

Integrity of the border control. In June 2000, a protocol was signed on co-operation between the Border Guards and the Naval Forces on the acquisition and mutual exchange of information necessary for the protection of the national borders.

Visas are basically in accordance with EU standards since 1999. To prevent illegal immigration this year the use of the Unified Visa Information System has started involving the Sea Rescue and the Navy, fulfilling the border control procedures and sending the data in an “on-line” regime.

Agreement between the Border Guards and the Association of Latvian Travel Agencies provides for shortening the time spend in the border controls during business and tourism trips.

In December 1999, the State Border Guard in co-operation with the Customs Board introduced a new “*Standard Technology on Motorway Border Control Points*”, thus reducing the time necessary for cargo control.

The training project financed by the PHARE – 98 *Twinning* programme in co-operation with the Finnish Border Guard began in September 1999. 42 courses were organised. In total 990 Border Guards were involved in personnel training of different types.

Asylum. Latvia has made substantial progress in “Visa Policies”, “Migration” and “Asylum”. In January 2000, a unified visa information registration system was introduced. In May 2000, the amendments to the Regulations on the Order of Issuing Visas to the Republic of Latvia were adopted with the purpose to introduce transit airport visas.

The regulations “*The Manner of Employment of Foreigners and Persons Without Citizenship in Latvia*”, which were adopted in March 2000, simplify the procedure for receiving residence permits on the basis of a work or employment contract.

A new ‘*Immigration Law*’ is being drafted which will contain all the requirements of the EU in the

field of migration.

The implementation of issuance of machine-readable visas is being continued.

Latvia signed a Readmission Treaty and Implementation Protocol with Austria in June 2000. The bilateral agreement on establishing of a visa free regime was signed with Japan in January 2000 and with Israel in May 2000 (the latter is not in force yet).

In 1999, the Refugee Centre received 18 applications from 22 persons (including family members) and refugee status has been granted to 3 persons. In 2000, two applications have been submitted. Refugee status has been granted to one person. There are altogether 7 persons in Latvia to whom refugee status under the Geneva Convention has been granted.

Latvia is involved in the Early Warning System in order to exchange information on the newest trends in the field of illegal migration.

There are places for 250 asylum seekers at the Reception Centre for Asylum Seekers "Mucenieki". Asylum seekers are also placed at the Temporary Reception Centre for Asylum Seekers at the Airport "Riga" until their identity is ascertained or until their cases are processed under the shortened review procedure.

Work has started on setting up a registration database of asylum seekers and refugees and on the creation of a unified translators and interpreters database of the Baltic States.

Latvia is using several tools to prepare for accession to the Dublin Convention. Fingerprints of detained illegal immigrants are currently stored; databases exist for visas of legally present foreigners and for illegals. The Saeima adopted the law "*On the Protection of Data of Natural Persons*" (March 2000).

Within the framework of the PHARE Horizontal Programme on Justice and Home Affairs Joint Support Programme, 6 educational seminars, 2 round-table conferences as well as an expert evaluation mission to Latvia have taken place. Thanks to this Programme, almost all the corresponding EU *acquis* documents related to asylum issues have been translated into Latvian.

25. Customs union

Latvian legislation in the field of the Customs Union is virtually in line with *acquis*. Since June 1999 Latvia has achieved substantial progress in implementing the remaining EC requirements.

"*The Customs law*" was last amended in September 1999, authorising the Government to adopt regulations regarding customs procedures and supplementing Customs law with a new Article (TARIC classificatory transactions) (according to Council Regulation No.2913/92 establishing the Community Customs Code) were adopted. The Government approved a number of regulations on the basis of Regulations No.2454/93²³ (Implementing Regulations to Community Customs Code).

In February 2000 amendments to the law "*On the Customs duty (tariff)*" according to the rules set by the Regulation 2658/78 were adopted. In the field of relief from duty, amendments to the law "*On Customs Duty (tariffs)*" according to the rules set by the Regulation 918/83 were adopted in February 2000. Secondary draft legislation package will be adopted during 2000.

Common Baltic Transit Agreement based on the principles of EU/EFTA Common Transit Convention is ratified in the three Baltic states and, according to the current schedule, joint transit control between Latvia, Estonia and Lithuania will come into force in January, 2001. This is a significant step towards accession to the Convention on a Common Transit Procedure.

Administrative capacity. The customs administration is a part of the State Revenue Service (SRS). Since April 1999 SRS regional customs offices are directly subordinate to the SRS National Customs Board. This ensures uniform application of customs controls. The structure of the SRS National Customs Board was reformed in mid 1999. Due to this, the enforcement functions have improved. A Transit Control Division was created in October 1999.

There are 155 employees in SRS National Customs Board and 1502 employees in regional SRS Custom's offices (31 December 1999). The personnel turnover in SRS decreased from 58% in 1994 to 8% in 1999. The level of education in the SRS increases. In regions at present 32% have higher, 37% secondary professional and 30% secondary education. 18% are currently studying in universities and colleges. In the central administration 66% of employees have higher education, 16% secondary professional, and 16% - secondary education. 10% are currently studying. There is a central Training centre in the SRS and in two largest regional offices (Daugavpils and Jelgava) already established, and it is planned to have the training centre in each of the regions till December 2002.

The Internal Audit Division of SRS National Customs Board monitors the code of ethics and legislation regarding prevention of corruption as well as to develop and implement measures to decrease the risk of corruption. The unified technological schemes have been developed for all customs points and video-monitoring system is in place in the airport and in some major customs points. In the nearest future it is planned to implement video-monitoring system in all customs points.

There are post clearance audit units in all regions and central headquarters and they have achieved excellent results. In 1998 EUR 1 080 000 surplus calculated, in 1999 EUR 4 520 000. The importance of Post-clearance audit is improving rapidly.

Roll-out of computerised customs declaration processing system ASYCUDA is in process now, and introduction of ASYCUDA in the whole country will be completed in July 2001. At present ASYCUDA is operational in 8 customs checkpoints and approximately 20% of all customs declarations are processed with this system. Linking all customs points into a common network takes place and majority of the main customs points (67 of 70) are already connected to the network. The networks for customs warehouses are to be maintained by warehouse owners.

There is a legal basis for simplified procedures set by regulations "*The order of declaration of goods*". According to this, there are 3 methods of simplifying customs procedures: 1) the procedure for incomplete declarations; 2) the simplified declaration procedure; 3) the local clearance procedure. Now there is ongoing work to realise this in practice. The examples of simplified declaration already used are in railroad transportation, pipeline transport, natural gas, ship supply, postal office

The new website of State Revenue Service is operational. The website provides all the legislation and instructions related to taxation and customs. The information is available without charge. Electronic forms of different declarations, bookkeeping reports and licence applications will also be obtainable on this website. Starting from June 2000 it is possible to submit customs declaration electronically. It is planned that the customs phone consultation centre will become operational at the end of year 2001.

26. External relations

Latvia continues implementation of an open and liberal trade policy, which is based on WTO principles and EU regulations and also complies with the bilateral trade agreements Latvia has concluded. Almost 60% of GDP is generated by free trade.

In accordance with the “*Law on Customs*” (1997) Latvia's customs value is assessed according to WTO requirements. The average customs tariff rate for industrial goods has declined to 3.71% (basic rate) and to 2.47% (MFN rate), with customs tariffs reduced to zero or a 1% rate on many goods. From 1 April 2000, the agricultural tariff reduction law is effective, which lowers the average production-weighted MFN tariff on agricultural products to no more than 30 percent. Latvia plans to take steps to further simplify and liberalise its trade regime.

In order to promote effective participation of Latvia in the WTO, a Consultative Board has been established. Latvia's position for the negotiations on Agriculture and Trade in services within the WTO was aligned with that of the EU. Latvia has made progress aligning its commercial defence instruments with international standards: “*Law On Safeguards*” (February 1999) and the “*Law on Anti-dumping*” (December 1999). The law “*On Protection against Subsidised Imports*” (May 2000) will enter into force by January 2001.

On December 1999 the Government adopted the *National Programme on Foreign Trade* with the aim to encourage entry into new markets, to consolidate the position in the already known markets and to avoid unfair competition.

Latvia has made progress in aligning itself with the EC Common Commercial Policy. In January 2000 the Free Trade Agreement with the Republic of Hungary entered into force. The Free Trade Agreement between Latvia and the Republic of Turkey is expected to enter into force by July 2000. Latvia is currently negotiating Free Trade Agreements with Romania, Bulgaria and the Faeroe Islands.

27. Common Foreign and Security Policy

Latvia is involved in the multilateral political dialogue within the framework of the EU CFSP. It has aligned itself with or supported the EU Common Positions and Joint Actions within the CFSP. The national policy of Latvia has been in compliance with the respective EU activities. The accession negotiations on CFSP have been provisionally closed.

Latvia has actively participated in ongoing debates on the European Security and Defence Policy. Together with other WEU Associated Partners it has elaborated a joint Statement on the ESDP, which was submitted to the WEU Ministerial Council. Latvia also has offered its contribution to the EU Headline Goal within the ESDP.

Being an active WEU Associated Partner Latvia participated in the WEU/NATO exercise CRISEX/CMX 2000 at the beginning of 2000.

Latvia has supported further strengthening of the European Security and Defence Identity. This process is compatible with Latvia's defence capabilities. Latvia has been recognised as successful candidate for NATO membership, especially in light of the fact that the first Annual National Programme for 2000 of Membership Action Plan was elaborated and submitted to NATO in September 1999.

Latvia has participated in international peace operations by sending Latvian platoon of the Baltic Battalion to NATO-led operations in Bosnia /-SFOR and a team of medical staff to Albania within the Belgian AFOR contingent.

28. Financial control

In February 1999 the Government designated the Ministry of Finance as co-ordinator for the implementation of a public internal audit system. In October 1999 the Government approved regulations “*On Internal Audit*” and regulation “*On the Charter of the Internal Audit Council*”. In

May 2000 the draft law “*On Institutional Structure*” passed the 1st reading in the Parliament. The law includes the provision that all government spending centres and agencies require internal audit.

The authorities consider that there is no immediate need for a separate law on internal audit, although such a law is maybe necessary in the longer term. The authorities would like to gain experience with the presently established internal audit rules before the law on internal audit would be passed. Elaboration of the law on internal audit started in June 2000. This Law is scheduled to pass by the end of 2002.

Administrative capacity. Internal Audit staff has been nominated, and internal audit units are established in all ministries. There are approximately 180 internal auditors (including staff of subordinated institutions) working in the government sector. The candidates for Internal Audit Council have been nominated. Annually each government-spending centre will report to the Internal Audit Council on its progress relating to establishing Internal Audit Units and on annual audit plans.

100 internal auditors have been trained in basic skills courses provided for government internal auditors. 7 trainers from different ministries were selected and received special training. They will develop a basic training course Programme for all auditors in government institutions. Each month a forum for Heads of Internal Audit Units is held to discuss all activities and problems in internal audit work. The Ministry of Finance has also developed a WWW home page for information on Public Internal Audit in Latvia.

The Ministry of Finance elaborated an Internal Audit Manual, which was distributed to all spending ministries. The manual includes risk assessment methodologies, audit planning and auditing. All government auditors have access to a library developed in the Ministry of Finance, to all materials and books on internal audit.

Methodology for peer-review system implementation was elaborated in April 2000. It allows the Ministry of Finance to assess the effectiveness of the internal audit units that have been established in other ministries and to be able to report to the Internal Audit Council. The Ministry of Finance will carry out peer-review in all ministries by October 2000.

Ministry of Finance has established a database, which provides a central source of information on all recommendations made by internal auditors and summaries of the time taken to complete audits. The database assists in future planning of audit programmes, and can help assess whether audits are carried out efficiently.

To develop procedures for conducting joint audits of EU funds, 3 joint audits have been conducted in line ministries. According to the Regulation (April 1999) establishing the National Fund, internal audit units of all relevant line ministries have to check the use of EU Funds.

External financial control

State Audit Office (SAO) is an independent collegial institution that audits state and municipal property as well as financial resources and use thereof. The SAO ensures that utilisation and collection of funds into general and special state and municipal budget is proper, efficient and legal.

The SAO has prepared a strategic development plan based on the Lima Declaration, INTOSAI auditing standards and guidelines for the implementation of INTOSAI standards in the EU. The plan was prepared in collaboration with SIGMA experts and confirmed by SAO Council in December 1999. The development activities are carried out within the areas of legal framework, audit methodology and the implementation of standards, competence development, and administrative capacity and information technology.

A Working Group was established in March 2000 with the aim to develop the necessary amendments to legislation, foreseeing the possibility to completely revise the present legal framework. From January 2000 a SIGMA expert and the SAO staff together are working on the issues concerning amending legislation.

SAO has prepared and in January 2000 accepted an assessment procedure for identifying the competencies required by its audit and administrative staff. In February and March 2000 assessment was carried out to identify training needs.

Administrative Capacity. 173 people are employed by SAO as of January 2000, of those 120 are auditors. In 1999 the SAO has carried out 5 audits of PHARE projects, mainly in the area of agriculture. As a result, deliverables of each project were ascertained. In 2000 the SAO keeps on to audit the use of resources of agricultural and rural development projects in Latvia financed by PHARE. A report on the realisation of projects in Latvia in the period of 1994 – 2000 will be prepared. In 1999 SAO has conducted audits of the use of public funds within the credit line of the World Bank for the Rural Development Project, the use of the credit of the World Bank in Jelgava City Council etc.

3. ACCESSION PARTNERSHIP AND NPAA

Accession Partnership

The Accession Partnership is a single framework document where the priority areas for further pre-accession preparations are identified. Priorities, as set out in the Accession Partnership, are implemented through the Latvian National Programme for Integration into the European Union. Implementation of the short to medium term priorities of the Accession Partnership has been successful.

Political criteria. Regulations for the implementation of the “*Language Law*” are being drafted in accordance with the letter and spirit of the adopted Law, which strictly limits state interference in the private sphere. The elaborated Regulations have been discussed with OSCE and the Council of Europe experts. In May 2000 the Government adopted the revised condensed version of the National Programme ‘*The Integration of Society in Latvia.*’ A special project in the framework of the Programme provides for intense Latvian language training. The “National Programme for Latvian Language Training” is being implemented effectively. The Government has allocated 600 000LVL in the State budget for 2000 to provide additional payment for Latvian language and bilingual teachers. The number of applications for naturalisation remains high. Only 65% applicants pay the full naturalisation fee. The capacity of the Naturalisation Board allows dealing with all applications without queues and delays.

Economic criteria. The competitiveness of economic strategy is promoted via inflows of private, public and foreign direct investment. Bank lending grew by 4.7% and 18% of GDP; public investment accounted for 4.5% of GDP and inflows of foreign direct investment for 6% of GDP. The Government has taken a number of steps based on recommendations of entrepreneurs and World Bank advisors to improve the legal environment. The privatisation of three large state enterprises is at a final stage. The Government has adopted privatisation rules for two of them (LASCO and Latvenergo) and is finalising debates with a potential strategic investor of the third one (Latt Telekom). The reform of Land Books carried out in the framework of a PHARE technical assistance project is completed. By 1 June 2000, approximately 371 144 units were registered in the Land Book. The number is gradually increasing. Land registration in the State Land Cadastre is virtually complete (98.5%). The draft law “*On Regulators of Public Services*” was accepted by the Parliament in the 2nd reading in March 2000. The draft law is to ensure continuous delivery of safe and high quality public services, whose tariffs (prices) comply with marginal costs, and to promote

development and competition in the regulated industries, setting the public service regulatory procedure and legal relationship in delivering of public services.

Internal market. Latvia has made important progress in aligning its legislation to the internal market *acquis*. Significant progress has been made in adoption of the *acquis*, especially in areas of free movement of capital, free movement of services, company law and culture and audio-visual policy.

Significant steps have been made to fully meet EU requirements in the area of public procurement. The law “*On Works, Supplies, Lease and Services Procured by Entities Operating in the Public Utilities Sector*” has been adopted. The Parliament approved amendments to the law “*On Government and Municipal Procurement*”. In the area of intellectual property rights Latvia’s legislation is fully in line with the *acquis* by adoption of the new law “*On Copyrights*”. Parliament has adopted the law “*On Protection of Personal Data*”. The “*Commercial Code*” was adopted in April 2000. The law ensures a transposition of EC directives into legislation and will simplify company law and improve the situation in the area of entrepreneurial activity. Since 1998 the horizontal legislation in the field of free movement of goods is in place. The law “*On Conformity Assessment*” has been aligned with the *acquis*. New legislation has been adopted in most areas of sectoral legislation, also with regard to medical devices. Legislation on pharmaceuticals for veterinary use is being drafted. To supplement current legislation on market surveillance with provisions of the EU directives on general product safety and product liability, the “*Product and Services Safety Law*” and law “*On the Liability for the Product or Service Deficiencies*” has been adopted. The Market Surveillance Council will be established. Different institutions carry out market surveillance in various sectors, and the Consumer Rights Protection Centre is the coordinating institution. It is planned to gradually increase financing from the state budget. Restrictions in most remaining areas – forestry, radio and television, and lottery and gambling business have been abolished. The amendments to the law “*On Security Services*”, eliminating restrictions in the last remaining area (security services) have been submitted to the Parliament. The legal base for banking, insurance and securities operations was further refined. A new draft law “*On VAT*” was prepared. The new law “*On Excise Tax on Beer*” is in force since 1 January 2000. A comprehensive SRS modernisation Programme (1998 – 2002) was created in collaboration with the World Bank. The authorities amended the “*Customs law*” and approved a number of regulations on the basis of Commission Regulations. The capacity of customs administration has increased.

Agriculture. A significant part of the legislation is in line with EU requirements in the veterinary and phytosanitary sector. The law “*On Animal Protection*” and amendments to the law “*On Pedigree Activities*” were adopted. In May 2000, the Government adopted a framework law “*On Veterinary Medicine*”. The law “*On Seed and Planting Stock Chain*” and amendments to the law “*On Protection of Plant Varieties*” were adopted. Attention is paid to reinforcement of the State Veterinary Service by improving its institutional capacity. The information system of the State Veterinary Service is now being setting up; the database for accountancy and analysis of laboratory samples has been established. The Sanitary Border Inspection has accomplished connection of 25 sanitary border control posts to the Data Transmission Centre with a view to ensuring fast information exchange with the central office, including the database of rejected consignments. The Computer Programme for inspectors of the Sanitary Border Inspection has been modified. The Sanitary Border Inspection successfully continues to co-operate with domestic market monitoring institutions in Latvia. The Eastern border control posts after construction work mostly complies with EU standards and the Sanitary Border Inspection is able to carry out checks of consignments efficiently and professionally. The Sanitary Border Inspection has started fitting out of perspective EU external border control posts with the necessary equipment and gear. Regulations have been adopted, introducing EU requirements with respect to hygiene, marking, storing and transport of milk and honey. On the basis of the instruction of the Ministry of Agriculture “*On Animal*

Identification” in June 2000 all bovine animals are to be identified and registered in Latvia.

Transport. Regulations “*On Requirements for Vessels Carrying Dangerous or Polluting Goods*” and “*On Passenger Registration on Ships*” have been adopted. The draft “*Maritime Code*” will be elaborated by the end of 2000. The “*Maritime Safety Law*” regulating maritime safety matters are under preparation. Following conventions of the *International Maritime Organisation (IMO)* several amendments to this Convention have been ratified. Latvia is in the process of joining the *International Convention for Safe Containers 1972, (CSC)* and *UN Convention on the Law of the Sea, 1982*. Latvia and Sweden have signed the *Agreement on Co-operation in Maritime and Aeronautical Search and Rescue*. The negotiations regarding the conclusion of similar agreements with Lithuania and Estonia are underway.

Employment and Social Affairs. In February 2000 the Government accepted the National Employment Plan for the year 2000. Regarding Social dialogue, the new organisational structure of the National Tripartite Co-operation Council was accepted. A new approach has been introduced for the new legislation in the field of labour law, allowing social partners to set detailed provisions concerning mutual rights and obligations in labour relations. The EU Pre-Ins Facility 1999 project on establishment of new institution providing assistance for small and medium-sized enterprises in the field of health and safety at work, strengthening social partnership at enterprise level as concerns enforcement of new Labour Code, is being prepared. The draft *Labour Code* is expected to be approved by October 2000.

Environment. Latvia continues to make progress in this area. Amendments to the law “*On Environmental Protection*” and Regulations “*On Environmental Impact Assessment Procedure*” have been adopted. The draft law “*On Waste Management*” has been submitted to the Government. The framework “*Law on Pollution*” has been submitted to the Government. Regulations have been adopted introducing EU requirements regarding waste management, air quality and climate change mitigation, water management and industrial and noise pollution.

The main co-ordinating institution for EU integration in the Ministry of Environment Protection and Regional Development (MEPRD) is the European Integration Unit. In 1999 institutional strengthening (Twinning) projects have been commenced. Co-operation with other line ministries has been improved due to the establishment of European integration working groups. To ensure effective and successful co-operation with ISPA and PHARE programmes, in the MEPRD Investment Department an EU Financing Unit has been established. For the implementation of the 500- Programme a special implementation unit has been formed at the state enterprise project agency “*Vides Projekti*”. The Chemicals Bureau, a structural unit of the Latvian Environmental Data Centre of the MEPRD, has been established.

Calculations of estimated costs for the implementation of the environmental *acquis* have been made. Estimated implementation costs and the financing plan are based on sectors. Public and private sector costs have been examined differentially. For the state implementation costs there are annual finance plans until full compliance is reached.

Justice and home affairs. Latvia continues to reform the judicial system in order to raise the efficiency and independence of the court system by drafting of a new law, carrying on the computerisation of courts, as well as training of judges in the field of EU Law. As regards the fight against organised crime, drugs and corruption, the co-ordination of activities among the institutions involved has been reinforced and concrete measures have been implemented. Strengthening of the State Eastern Border has been carried out by developing modern communication networks, improving mobility, building new border posts and raising the qualification of border guards.

Reinforcement of administrative and judicial capacity, including the management and control

of EU funds. In May 2000 the Parliament in the 1st reading accepted the draft law “*On State Agencies*” and the draft framework law on public administration. The draft law “*On State Civil Service*” passed the 2nd reading in Parliament. In October 1999, the Government approved a preliminary National Development Plan. The revision of the preliminary National Development Plan started in January 2000. In October 1999 the Government approved regulations “*On Statute of Internal Audit Council*” and “*On Internal Audit*”. The regulations stipulate the procedure for implementation of Internal Audit in all line ministries. The administrative capacity of internal and external audit institutions has been increased

2. Latvian National Programme for Integration into EU

The revised Latvian National Programme for Integration into the European Union (NPAA) was approved by the Government on 13 June 2000. This programme is result of a revision of the National Programme’s version developed in the first half of 1999. The Programme fully incorporates the requirement for a National Programme for Adoption of the *Acquis* – this means that the NPAA is an integral part of the Latvian National programme for Integration into the European Union.

The 1999 Progress Report includes a detailed evaluation of the last National Programme and it provides for a positive assessment of the strategic and operational planning model developed in the Programme. Latvia also received a very detailed analysis of the document from the European Commission on 20 December 201999, which covered all the specific sectors of the Programme.

Remarks and recommendations mentioned by the Commission in these documents, as well as the results of the bilateral screening exercise and discussions in the context of the Europe Agreement, were considered and taken into account in the revised version of the NPAA of 2000.

In the revised National Programme it was taken into account that the accession negotiations will have a direct impact on the integration process as a whole, and that depending on the results of the negotiations it might be necessary to make amendments to the National Programme.

Revision of the National Programme:

The structure and methodology of the previous NPAA is still used this year. The core structure, therefore, reflects the Copenhagen-Madrid criteria in its strategic priority themes as follows:

- Preparing society for membership;
- Preparing the economy for membership;
- Preparing to meet the obligations of membership;
- Preparing the administration for membership.

Fulfilment of these four strategic objectives will prepare Latvia for membership in the medium term, which is the overall objective of the Latvian National Programme.

The National Programme provides a single national framework for planning prioritising and monitoring the accession process in its different sectors. Priorities for implementation of the *acquis*, along with an indication of development/investment priorities, are brought together in a single document. Priority actions in the area of legal and institutional adoption of the *acquis* are developed in substantial detail in the Programme, showing all the relevant *acquis*, planned outputs for the Programme period, deadlines for accomplishment and financial means. Plans for the implementation of specific priority directives are set out in detail.

The National Programme is based on Technical Fiches, which set out more clearly the objectives

and the planned activities for their achievement. This structure ensures coherence in the descriptions and timing of specific projects. The Technical Fiche is developed according to the so-called Log-Frame methodology and Project management approach. This, in effect, facilitates the use of each Technical Fiche both as an answer of the Government of Latvia to the inefficiencies identified by the European Commission and as a project proposal, project implementation plan and form of account.

Key issues of the revised National Programme:

The revised National Programme reflects the 1999 *Accession Partnership* priorities in specific areas, including a reference to the relevant *acquis* and all specific directives within individual Technical Fiches; an annex to the NPAA contains a reference tables listing all Accession Partnership priorities with the corresponding NPAA project fiches to implement them.

Coverage of the acquis communautaire. The National Programme continues to be directive-specific. This year it is amended with references to the recently adopted *acquis* in some sectors, as well as with the *acquis* not properly reflected last year.

In the planning of institution building a new approach has been included, which would allow determining the additional recourses (e.g. personnel, training) necessary in the framework-specific chapters of the *acquis* (to be completed).

One of the key principles, which are consistently embodied in the National Programme, is that of *budgetary realism*. In preparing the Programme every effort has been made to ensure that only those actions for which financial commitments are secured in the National Budget will be carried into the financial programming of the NPEI/NPAA. A separate chapter of the Programme covers the financial implications of implementing membership preparations in the short and medium term. The corresponding financing sources, i.e. the National Budget, PHARE, ISPA, SAPARD and bilateral assistance are set out in the financial tables for the period from 2000 to 2002.

Revision of the national budget planning system is continuing with the aim of developing a multi-annual perspective.

The monitoring of the NPAA is proceeding on a regular basis using an electronic and Internet based management information system called the European Integration Information System (EIS). Mechanisms for this are being set up in ministries and in the co-ordination institutions, as well as at the level of the Council of Senior Officials. The European Integration Council is a forum where the ministries involved in the integration process control at the political level the integration process of Latvia into the EU. The political decisions are discussed and adopted to secure this process by approving new priorities or concrete politically co-ordinated measures.

In the planning of institution building a new approach has been included. During the Helsinki summit Latvia was invited to negotiations on joining the EU. In order to prepare negotiation position papers successfully, it is necessary for the Latvian administration to carry out a detailed analysis of present administrative structures and their functions in each opened negotiation chapter.

At present eight chapters have been opened for negotiations - Small and medium-sized undertakings, Science and research, Education and training, Common foreign and security policy, Culture and audio-visual policy, Statistics, External relations and Competition policy. Meanwhile institutions building analytical fiches on the following chapters have been prepared: Science and research, Education and training, Statistics and Competition policy and state aid and Consumers and health protection.

The common purpose of institution building is to develop the structures, procedures, human

resources and management skills needed to put in place economic, social and regulatory systems equal to the task required for approximation of laws and for implementation of the *acquis* in all three phases of the adoption of *acquis* – transposition of legislation, implementation and effective enforcement.

In the pre-accession period as well as after accession, Latvia will have to continue the restructurisation of administration in order to ensure the effective and qualitative enforcement of the *acquis*.

Institutions building analytical fiches are tools which allow to forecast institution-building measures to raise administrative capacity. The adaptation of administrative capacity includes the reassigning of functions within administration and qualitative human resource management.

Fiches also give an indication of necessary human resource developments arising from the *acquis*. The *Acquis* of each negotiation chapter is taken as a basis for identifying the institution building needs. While developing fiches, each chapter of the *acquis* was analysed in order to filter out the measures that set out concrete functions to be fulfilled by the Latvian administration.

The basis of methodology for institution building analytical fiches was prepared by the World Bank and Public administration reform bureau in 1999 for the functional audit of the Ministry of Agriculture.

The “life cycle” analytical fiches:

At present, analytical fiches on five negotiation chapters have been prepared. As the negotiations progress, it is planned to prepare the rest of the fiches by the end of year. An analytical fiche is a dynamic document, which will be updated once every three months. During the update new as well as improved updated fiches will be added.

ANNEX 1. INFORMATION ON TRANSPOSITION OF LEGISLATION

The Executive

¹ The draft *Framework Law on Public Administration* defines the status of the public institutions, differences among the subordinated, supervised public institutions and institutions under management of a ministry, as well defines common principles for the work of public institutions, including the requirement to establish Internal audit structures in public institutions. In order to increase the transparency of the public sector, the law envisages the establishment of state agencies, replacing previously semi-autonomous state stockholding companies working in the field of public administration.

² *Concept on State Agencies* (February 2000) underpins the management, financial controls, performance and accountability of agencies. It provides for the transforming of existing state non-profit organisations, limited liability companies and joint stock companies into the public agencies hence assuring adequate transparency and control of expenditure of state funds. After the adoption of the law “*On State Agency*”, the status of 170 such organisations will be clarified and changed. Public agencies are state institutions and therefore are subjected to public law, including the Law on Openness of Information and Law on Public Procurement. There is direct subordination relationship between the head of an agency and the responsible minister. Pay system in public agencies is an integral part of the unified public sector pay system.

³ The law “*On State Civil Service*” establishes the horizontal and vertical scope of state civil service based on state functions, defines main duties and responsibilities of the civil servants applicable to general and specialised civil service corps. Additional regulation of specialised civil service corps, such as Police, Customs, State Revenue Service, State Audit Office is provided in corresponding special laws. Compared with the “*Law on Civil Service*” currently in place, the new draft contains additional provisions, such as compulsory performance appraisals of civil servants, regulation on elimination of conflict of interest, basis for the remuneration system of civil servants. The new draft limits the possibility of heads of civil service institution to occupy posts without appraisal of their performance for a period longer than five years.

⁴ *Programme for Improvement of Work of Inspections* is aimed to improve business environment and functioning of state inspections. The programme focuses on introducing of transparent and effective inspection measures in full observance of administrative procedure legislation, training of directors and inspectors, improving of informing the clients about the mandate of inspections and improving performance management and accountability.

⁵ Free Movement of Goods (Administrative Capacity)

MOTOR VEHICLES

Issues regarding free movement of goods in this sphere are the competence of State non profit joint stock company’s Road Traffic Safety Directorate’s **Inspection of the Control and Certification of Transportation** (hereinafter: *Inspection*). Inspection employs 10 employees, including the principal of the Inspection and alternate principal. Further, 5 employees work exclusively on issues relating to free movement of goods in the field of conformity assessment of vehicles. If the amount of work will increase, also the number of employees will be increased. Manufacturing of vehicles in Latvia is checked regularly.

Inspection receives documents from the representatives of manufacturers (dealers) and from a data basis for the needs of the registration of new transportation. After the consideration of documents, the dealer receives national type approval certificate for the transportation. On the basis of this national type approval certificate, every single vehicle receives a conformity certificate. Without this conformity certificate, a new vehicle cannot be registered in Latvia. The documents are reviewed in the time period defined by law.

The **State Baltic Station of Machinery Testing** (hereinafter: *Station*) is an institution under the supervision of the Ministry of Agriculture. It assesses the conformity of technical equipment agricultural, forestry, wood-work machinery in the regulated fields. The Centre employs 36 technologists and the administrative personnel.

The testing laboratory, which after the reorganisation in 1999 is a structural entity of the Station, was re- accredited in 2000. It is planned to conduct a testing of 30 and certification of 140 mechanisms that have been either imported or

produced in Latvia. It is planned that, in accordance with agreement between the Station and the Consumers' Rights' Protection Centre, the Station will partly take up the market surveillance of the agricultural, forestry and wood-work machinery.

FOODSTUFFS

Latvian Certification Centre is the institution that assesses conformity of foodstuffs, cosmetics, toys and other products as well as the conformity of manufacturing process in both the regulated and unregulated sphere. 30 persons work with the Centre. For example, regarding tobacco, the number of tests annually amount to 600.

Latvian Food Centre is the institution that organises and co-ordinates the policy as well as develops relevant legislation regulating the safety and quality of food (also genetically modified food) and circulation of food. The Centre does not conduct any checks. 21 persons work with the Centre.

The control in the places where foodstuffs are produced and sold is one of the duties of **State Sanitary Inspection**. Similarly, Inspection is responsible for control in cafés, bars, bistros etc., as well as over the system of providing the drinking water. The inspection carries out both pre-arranged checks and ones that are not previously arranged. Also, it acts upon complaints. All together, there are 180 employees in the Inspection. However, the control over the production and trade in foodstuffs is but one field of activities for the Inspection.

Border Sanitary Inspection (hereinafter *BSI*) is an institution that is subordinated to the Ministry of Agriculture. Within its competence, BSI organises and performs the checks on the export, import and transit loads at the Latvian border and in the customs' storages. BSI controls if the provisions regulating the transportation of the cargo are observed.

There are 255 people employed by BSI. Of those 34 work in administration. 221 work in the checking points of BSI – on roads, railroads, harbours, custom's storages, airports, and post. The BSI is steered by the head of BSI and 4 deputy heads of BSI. The deputy heads of the BSI organise the work in administrative field, veterinary field, phytosanitary field and the field of safety and harmlessness of the products. The administration of BSI is composed of 6 parts.

In 1999, BSI has completed checks for 176 000 entities of sanitary hygienic shipments, 119 000 entities of veterinarian and 141 000 entities of phytosanitary shipments. 202 entities of shipment were detained until all the proper documentation was provided. 36 entities were returned. On 400 samples of product's shipment laboratory testing was conducted, but 60 entities of shipment were sent for extermination. The strengthening of the administrative capacity of the BSI will be completed by year 2002. The activities include creation of unified information system between BSI and other state institutions as well as ensuring the flow of operative information between them.

The **State Veterinary Service** (hereinafter: *SVS*) is one of the institutions supervising and controlling food's circulation. SVS functions under the supervision of the Ministry of Agriculture and its competence extends to extraction of raw materials, production of foodstuffs, transportation, storage and wholesale and sale at marketplaces.

SVS consists of central administration, regional veterinary authorities and the network of veterinary laboratories. In the central administration of SVS, 11 employees in the division of Supervision of animal's production are responsible for the supervising of foodstuff's circulation. In addition, 55 inspectors in regional veterinary authorities (at least on in each region) do the same.

The checks are conducted in accordance with the programmes of veterinary supervising that determine the frequency of checks, depending on the object of the check, legal requirements and necessary laboratory analyses etc. There are 1011 enterprises involved in the production of animal origin foodstuffs and 376 places of storage for products and marketplaces under the control of SVS. In marketplaces and slaughterhouses, non-stop supervision is carried out by veterinary experts.

If an offence is detected, SVS may issue a notice, impose a fine or close the enterprise until the offence is corrected. The action taken depends on the type and seriousness of the offence. In addition, a plan for eliminating the offence or imperfection is composed.

The necessary laboratory testing is carried out in State Veterinary Medical Diagnostic Centre and other veterinary laboratories. However, problems might arise in cases of new kinds of food pollution like, for example, with dioxin.

As a result of reorganisation of State Food Quality Inspection and the State Cereal Inspection, a new institution – **State Control Service for the Quality of Agricultural Products** (hereinafter: *Service*) – was created. It plans to employ 25 people while at the moment, 23 are employed. To perform all functions that are assigned to the Service, the number of employees is not sufficient. However, every effort is made to ensure that gradually the cereal and other markets of agricultural products start functioning in a way that would conform to the international obligations of Latvia.

The institution consists of four parts: Division of Inspection, Division of Informatics and Testing, Centre of Examination with Central Laboratory and, finally, Laboratory for bread, pasta and patisserie.

In 1999, State Food Quality Inspection conducted 107 checks, but State Cereal Inspection, - 96 checks in accordance with the Programme for Supervising and Controlling of Production of Cereal Products. In addition, checks of cereal products for external trade and transit with tranship were carried out on 21 types of products thus checking 280 thousand tons of products in 1999, and 40 thousand during the first four month of 2000. The Central laboratory performed 14 436 tests in 1999.

CHEMICALS

The control of trade of chemicals is one of the duties of **State Sanitary Inspection**. The Inspection carries out both pre-arranged and unassigned checks. It also acts upon complaints. All together, there are 180 employees in the Inspection. However, the control over the chemicals' trade is only one field of action for the inspection.

Division of Chemicals Register is a structural unit of the Latvian Environmental Data Centre of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia. It was established in January, 2000. The division employs 3 employees and its aims are, inter alia, to maintain *EINECS* (European Inventory of Existing Commercial Chemical Substances), *ELINCS* (European List of New Chemical Substances) and European List of Classified Dangerous Substances. Other aims include:

- establishing, holding and updating the registers of chemical substances and chemical products according to the EU requirements;
- taking part in the process of origination of legislative acts and technical documentation referable to the handling and accounting of chemical substances and chemical products;
- stimulating awareness of the society about wholesome and environmentally friendly and safe use of chemical substances and chemical products;
- managing proper actions, in the frames of the Division's competence, set up by the national programmes and the international agreements, which covers a field of chemical substances and chemical products.

The Division will be a competent authority to whom to submit notifications of new chemical substances. The notifications will be processed in accordance with the legislation. Finally, the Division will provide information on chemicals and chemical products to society.

PHARMACEUTICALS

The **State Pharmaceutical Inspection** (hereinafter: SPI) is a state institution that functions under the supervision of the Ministry of Welfare and carries out the market surveillance to ensure that qualitative and safe medicines and pharmaceutical products are produced and distributed.

SPI has 21 employees, 14 of them are professional personnel while 7 belong to technical personnel. It is planned to rise the number of employees, adding at least 5 inspectors to ensure an effective fulfilment of SPI functions.

To fulfil its duties, the SPI visits enterprises and persons that work in the field of pharmacy and deal with medicines. During the inspection, SPI inspectors ask employees questions on issues relating to work with pharmaceuticals and control over it. Also, the SPI carries out arranged and unassigned checks and draws up the acts of inspection stating everything that was established during inspection. Similarly, SPI is authorised to obligate the offenders to correct the mistakes that are detected during checks or even stop the work of this enterprise or person. The time for taking a decision depends on the facts of the case, for instance, the seriousness of the offence. In the cases when person is fined, there is time given for the response by the offender. Thus, the time until the final decision on average is approximately a month.

There are 668 pharmacies, 384 subsidiaries of pharmacies, 71 merchandises of medicines, 21 divisions of medicine's merchandises, 19 enterprises that produce medicines, approximately 1000-1200 entities like hospitals, health centres etc., 10 national and territorial environmental data centres and approximately 138 institutions for social care under the control of SPI.

In 1999, SPI carried out 389 checks in pharmacies and their subsidiaries, 57- in merchandises and their divisions, 22 – in hospitals and health centres. In addition, SPI has examined 650 working-places of enterprises and persons that act in the field of pharmacy.

Another institution that supervises the field of pharmacy is **State Agency of Medicines** (hereinafter: *SAM*). *SAM*'s duties include appraisal, registration, regulation, supervision and control over medicines and distribution of medicines. There are 89 people employed in *SAM*, 75 are professional personnel and 14 – technical. Among other, *SAM*'s functions include registration of medicines and extending of registration, maintaining the system of pharmacovigilance, regulating of clinical research, conforming of the advertising of medicines. Also, *SAM* has the Laboratory of expertise for medicines and Laboratory of the quality of medicines. The Laboratory of expertise for medicines has carried out 900 analysis of medical samples for 270 medicines. Laboratory of the quality of medicines controls 125 pharmacies in urban and 48 pharmacies in rural areas that have extempore receipts, 32 hospital's pharmacies and 603 pharmacies where ready prepared medicines are sold.

State Agency for Prices of Medicines was created to implement the system for reimbursement for the buying of medicines. This Agency decides if certain medicines and medical devices are to be included in the list of products that are eligible for reimbursement. Also, it decides on the basic compensation for this product. In the process, the Agency co-operates with associations of doctors and pharmacists, taking into consideration their proposals. The Agency employs 12 people, 7 belong to professional personnel and 5 - to technical.

Agency of Health Statistics and Medical Technology registers medical devices and products. All together the Agency employs 57 persons. In the department of Medical technology there are 6 employees. Only such medical devices and products the type of which is registered in the Register of Medical Devices and Products can be used or sold in Latvia. In 1999, 1062 registration certificates were issued and 21 declared void.

PHARMACEUTICALS FOR VETERINARY USE

The **Division of Veterinary Medicines and Animal's Food** at the State Veterinary Service carries out the assessment and registration of veterinary pharmaceuticals. The same division issues licences for work with veterinary pharmaceuticals. 4 employees are employed in the division. Assessment and registration procedure lasts approximately 3 month after application and handing in all the necessary documents. The extension of registration last one month unless additional information is needed. Tests necessary in the process of assessment are done in the laboratories of State Agency of Medicines.

To carry out the assessment of veterinary pharmaceutical products and veterinary medicines, Veterinary Pharmaceutical Council has been established within the State Veterinary Service. The Council consists of 12 experts. Among experts there are veterinarians, pharmacists and lecturers from universities.

The supervision of the circulation of veterinary medicines and veterinary pharmaceutical products is the responsibility of the Division for Animal's Health and Well-being at the State Veterinary Service (one responsible person) and regional veterinary authorities (one responsible inspector in every region – 27 all together; however, most of them are also involved with the supervision of foodstuff's circulation or supervision of animal's health and well-being.).

COSMETICS, GLASS, TEXTILES, FOOTWEAR & WOODS

Latvian Certification Centre is the institution that ensures conformity of cosmetics as well as the conformity of manufacturing process in both the regulated and unregulated sphere. 30 persons work with the Centre. In the cases of cosmetics, the average amount of tests is 150 and 200 certificates were awarded last year. The time for taking decision is about 7 days, the certificate is issued within 5 days.

The **State Forestry Service** (hereinafter: *SFS*) is an institution under supervision of the Ministry of Agriculture. This institution attests the sources for forests' reproductive material and issues certificates for this material. Also, it issues licences, authorisations, confirmations and other documents in accordance with legal provisions relating to the sphere.

Due to the reorganisation of *SFS*, the number of employees has fallen from 2970 to 1650. Of those, 67 are employed in the central administration of *SFS*. Similarly, the number of seasonal workers has fallen from 900 in 1999 to 700 in 2000.

One of the main functions of the *SFS* is consulting and instructing of forest's owners. Therefore, several courses have been organised in co-operation with institutions in other countries that work in the same sphere. In addition, the employees of *SFS* continue their education by attending courses organised by the State School for Administration.

MACHINERY

The **State Baltic Machinery Testing Station** (hereinafter: *Station*) is an institution under the supervision of the Ministry of Agriculture. It assesses the conformity of technical equipment (agricultural, forestry, wood-work) in the regulated fields. The Station employs 36 technologists and the administrative personnel.

The testing laboratory, which after the reorganisation in 1999 is a structural entity of the Station, was re-accredited in 2000. It is planned to conduct a testing of 30 and certification of 140 machineries that have been either imported or produced in Latvia. The Station provides to the State Certification Register information on activities that concern recognition of conformity assessment's attestations issued in EU Member States or other countries. It is planned that, in accordance with agreement between the Station and Consumers' Rights' Protection Centre, the Station will take up the market surveillance of the agricultural, forestry and wood-work machinery.

LIFTING AND HANDLING EQUIPMENT, PERSONAL PROTECTIVE EQUIPMENT & DANGEROUS DEVICES

State labour inspection (hereinafter: *SLI*) is carrying out the control in this field. It is planned that SLI will take over market surveillance, too. SLI duties, *inter alia*, are to participate in commissions that accept the new places of manufacture (i.e. buildings with equipment), means of production and dangerous devices and allow using them. Further, the SLI also controls if those objects conform with requirements of hygiene, labour protection and safety and provisions relating to technical supervision of dangerous devices. Also, SLI is issuing licences in accordance with the order defined by the Ministry of Welfare. SLI consists of central administration and 7 regional inspections. All together, 180 employees are employed by SLI. If SLI will take over the control of market surveillance, the number of employees will rise.

In 1999, SLI carried out 9605 checks and 475 special checks. As a result, 6769 warrants were issued. The average period until the decision is made is 3 days.

TOYS

Latvian Certification Centre is the institution that ensures conformity of toys and also the conformity of manufacturing process. 30 persons work with the centre. On average, 300 checks on toys are carried out annually and approximately 70 certificates issued. The time for taking decision is about 7 days, the certificate is issued within 5 days.

RECREATIONAL CRAFT

Issues regarding free movement of goods in this sphere are the competence of State non profit joint stock company Latvian Sea Administration. It is not specified yet which services will work on transposing legislation in this field, however, most likely, Latvian Ship Register, Navigation Safety Service and the Service of Ships' Inspection will take up the task. Also, the notified body responsible for conformity assessment will be established in future.

MEDICAL DEVICES

Agency of Health Statistics and Medical Technology works with registering of medical devices and products. All together the Agency employs 57 persons. In the department of Medical technology there are 6 employees.

In Latvia only those medical devices and products the type of which is registered in the Register of Medical Devices and Products can be used or sold. In 1999, 1062 registration certificates were issued and 21 declared void.

CONSTRUCTION PRODUCTS

According to the Order by the Government, the conformity assessment of construction products is carried out by two certification institutions. 7 employees are permanently employed by those institutions and more than 30 experts have contracts for periodical employment. Further, 14 testing laboratories perform the testing of construction products. All together, the testing laboratories employ 49 full time employees. The market surveillance is supervised by **State Construction Inspectorate**. Up to today, more than 600 conformity certificates have been issued in the regulated area of construction products.

The application is reviewed by certain institution within two weeks. The procedure of certification itself, however, normally lasts from 2 to 4 month, depending on the complicity of the construction product and risks involved. On average, there are 120 – 140 applications for certification or extension of certification in the process of review.

In today's situation, the 14 authorised testing laboratories are able to perform all testing needed. It is planned to establish new testing laboratory for cement and ceramic materials.

State Construction Inspectorate carries out approximately 100 – 120 checks every year. From those, in approximately 10

– 15 cases an offence is found. In the cases of offences, the Inspectorate is authorised to impose a fine. In order to transpose the directive 89/106 EEC, a Technical approval body is to be created. The Technical approval body would approve technical regulations and the rules of the conformity assessment for construction products that do not fall under the scope of either CEN harmonised standards or national standards.

⁶ Free Movement of Goods (Sectoral legislation)

Motor vehicles. EU *acquis* in the area of Wheeled Road Vehicles and Their Components (sidecars) is fully implemented. Legislation on agricultural or forestry machinery will be implemented by en of 2000.

In February 2000 the Government accepted the Regulations “*On the Labelling of Foodstuffs*” which implements the requirements of the Directive 89/396/EE. Regulations are harmonised with the requirements of directives 79/112/EEC and 94/54/EC. These regulations also provide for nutrition labelling of foodstuffs according to the European Union directive 90/496/EEC. The draft regulations on sugars mentioned in the directive 73/437/EEC are being prepared and will be ready by year 2001. In April 2000 the Government accepted the Regulations “*Compulsory requirements for safety and labelling of honey*”. These regulations will enter into force from 1 January 2001.

Regarding **chemicals**, Regulations “*On Restrictions and limitation on the marketing and use of dangerous chemical substances and dangerous chemical preparations*” were adopted in April 2000. Chemicals Bureau was established in the beginning of 2000 in the Latvian Environmental data Centre. The Bureau is the Competent Authority in this sector. It is foreseen that draft regulations “*On Order of Notification of New Chemical Substances*” will come into force by the end of this year.

Regarding **drug precursors**, the Latvian authorities signed the Vienna Convention of 1988 in May 1993. EC directives in this field are transposed by *Law on Precursors*, adopted 1996, amended in 1998; Regulation of the Government “*The list of controlled Narcotic Drugs, Psychotropic substances and precursors*” adopted in 1997, amended in 2000 for updating in conformity with market situation; Regulations “*On Registration and Licensing of Precursors Operators*” adopted 1996, amended in 1998.; Regulations “*On circulation of Narcotic Drugs and Psychotropic Substances as well as Precursors in Pharmaceutical manufacturing companies, Wholesale companies and Pharmacies*” adopted in 1995, amended in 1997. The Ministry of Welfare is responsible for drafting and implementation of the legislation in this area.

The intended basic legislation concerning fertilisers is “*Law on Fertilisers*” which will establish the legal basis and mechanism for transposing EC Directives into national legislation. At present a draft of *Law on fertilisers* is in a stage of co-ordination between ministries.

The main Latvian legislation in the field of **pharmaceutics** is the Law “*On Pharmaceutical Activities*”, adopted in 1997, amended 1998 and 2000. This law provides a general legal framework regulating issues such as manufacturing, development, classification, registration, testing, prices and price control, distribution, labelling and advertising together with laws “*On Precursors*”, “*On licit Circulation of Narcotic and Psychotropic Substances*” and finally the Patent Law, which is reviewed in the chapter on company law. The general framework has already established a considerable degree of alignment with the *acquis*.

EC directives on manufacturing and distribution are partially transposed by the framework laws and several regulations, in particular No 221 “*Order on Good Manufacturing Practices*” and No 376 “*Order on Good Distribution Practices*”. With the adoption of the latest amendments to the Law “*On Pharmaceutical activities*” approved by the Parliament on June 1st, 2000 the delegation is changed from Regulations of Minister of Welfare to the Government for issuing regulations on general requirements on manufacturing for implementation EU directives 91/356/EEC and 75/319/EEC, 92/25/EEC the Minister of Welfare (according to) is allowed to adopt guidelines on GMP in accordance with Commission Guide to good manufacturing practise for medicinal products and its Annexes (Office for Communities. The rules governing medicinal products in the European Community, Volume IV). Draft regulations on import, export and distributions as well as on manufacturing of products are prepared for submission to the Government. The existing legislative act will be revised and amended with the requirements of Manufacture of Products derived from Human Blood of Human Plasma, Manufacture of Investigational Medicinal Products, use of Ionising Radiation in the Manufacture of Medicinal Products, Manufacture of Pressurised Metered Dose Aerosol Preparations for inhalation, Manufacture of Medicinal gases and Manufacture of Radiopharmaceuticals. Proposed date of adoption - October 2000.

EC directive on marketing authorisation (65/65/EEC; 75/319/EEC) has been largely transposed by the framework Law “*On Pharmaceutical activities*” and further by Regulations, No 24 “*On Registration of Medicinal Products*”, adopted on 20 January 1998, and by ministerial orders on fees. But not all relevant regulations have been implemented yet. Draft

regulations to transpose the option of Article 4 of the EC directive 65/65/EEC on the market authorisation of generics and for implementation of directive 75/318/EEC and its last amendments: directive 99/82/EEC and directive 99/83/EEC, as well as EC directives 78/25/EEC, 89/343/EEC, 89/381/EEC, 92/73/EEC are prepared and submitted to the Government in June 2000. Proposed time of adoption – the third quarter 2000. The State Agency of Medicines is entrusted with the registration process of pharmaceuticals. It ensures also quality control and control of import/export and transit of narcotics and psychotropic drugs.

Draft regulations on clinical trials are prepared and submitted to the Government. Proposed date of adoption – September 2000.

EC directive 89/105/EEC is partly transposed by the regulations “*On Reimbursement of Medicinal Products for Ambulatory Care*” and “*On Medicines’ Pricing and Reimbursement Agency*”, both from 1998. Regulation of the Government “On Supply, Storage, Dispensing and Accounting of medicinal products in Health care institutions” (28.09.99.) has been adopted. The Medicines’ Pricing and Reimbursement Agency administrates and implements the pricing as well as the reimbursement system which is already to a large degree compatible since beginning 1999 with the EU. Positive List for treatment of disease of the circulatory system: rheumatism, hypertensive diseases, ischemic heart diseases, other heart diseases, cerebrovascular diseases, diseases of arteries, arterioles and capillaries and agents affecting health and contiguity with health care professionals approved.

EC directive on classification is already fully transposed by the framework law and implementing regulations, No 260 “*On Classification of Medicinal Products for Human Use*” and No 61 “*On Procedure on Specifying the Classification of the Medicinal Products*”.

EC directive on labelling has already been fully transposed through the framework law and regulation No 24 “*On the Registration of Medicinal Products*” as well as regulation No 234 “*On Labelling of Medicinal Products for Human Use*” from 1998. Amendments to bring the regulation further in line with the *acquis* (92/73/EEC and 89/343/EEC) are planned by the end of 2001.

EC directive on advertising will be fully transposed by end 2000 through new regulations instead of the existing “*On Advertising of Medicinal Products for Human Use*” from 1995. The draft of new regulations “*On Advertising of Medicinal products*” is prepared and will be submitted to the Government in October 2000.

For implementation of *acquis* on **pharmaceuticals for veterinary** use the following draft legislation is being prepared: regulations “*On distribution of veterinary medicinal products and On Manufacture of veterinary medicinal products*” (directive 81/851/EEC); regulations “*On Manufacture of veterinary medicinal products*” (directive 91/412/EEC); regulations of the Ministry of Agriculture “*On Maximums Residue limits of veterinary medicinal product in the foodstuffs of animal origin*” (Council regulation 2377/90); regulations “*On registration of medicinal products*” (implements directive 78/25/EEC relating to the colouring matters which may be added to medicinal products); and regulations “*On the Mandatory Requirements for the Harmlessness of Drugs for Animal Consumption*” that states the criteria that are mandatory for the veterinary drugs.

Regulations “*On the Safety of Toys*” are adopted in April 2000. Regulations transpose EU directive 88/388/EEC.

Requirements of **lifting equipment** were implemented in the regulations “*On conformity assessment of designing, manufacturing and installation of lifts and their safety components*” accepted in April 2000.

Regulations “*On safety of machinery*” have been adopted in May 2000 and are developed according to the requirements of 98/37/EC Directive on the approximation of the laws of the Member States relating to machinery. **Electrical equipment.** Regulations “*On the electrical safety of equipment*” (May 2000) which implements the requirements of the Directive 73/23 EEC and the regulations “*On the electromagnetic compatibility of apparatus*” which implements the requirements of the Directive 89/336 EEC.

Regulations “*On Safety equipment and protective systems intended for use in potentially explosive atmospheres*” transposing EU directive 94/9/EC have been adopted in May 2000.

In order to improve the process of adoption and implementation requirement on **medical devices** (Directives 93/42/EEC, 90/385/EEC, 84/539/EEC and 98/79/EC), the amendments to the law “*On Medical Treatment*” were adopted in June 2000. Regulations implementing the amendments will be in place by the end of year 2000.

Pressure vessels. Regulations “*Pressure equipment and their accessories*” implementing directive 97/23/ECC are adopted in May 2000. Draft regulations for implementation of the *acquis* on aerosol dispensers of is under development and will be implemented by the end of 2000. Draft regulations on gas cylinders are under development and will be

adopted by the end of year 2001.

Directive 91/263/EEC concerning **telecommunications equipment**, including the mutual recognition of their conformity has been incorporated in draft “*Law on Telecommunications*” and draft regulations “*On conformity assessment of telecommunication terminal equipment*” (will be enforced in 2000).

Legislation in the area of **recreational craft** is under development and will be adopted by the end of year 2000.

Regarding **glass** the regulations “*On the Labelling of Crystal Glass*” implementing directive 69/493/EEC have been adopted in February 2000.

Concerning **wood**, Regulations *Procedure on classification of wood in the rough* will be adopted, thus further transposing Directive 68/89/EEC. Also 11 standards will be adopted by the end of year 2000.

⁷ Regulations on registration of foreign investment firms with the SMC (approved on 12.05.2000.)

Regulations on Stock Exchange Licensing (passed on 12.07.1999)

Regulations on Tender Offer of Shares (passed on 16.09.1999)

Regulations on Reporting of Securities Transactions (passed on 10.11.1999)

Regulations on Reporting of Over-the-Counter Market Transactions (passed on 24.12.1999)

Regulations on Transfer of Securities Accounts (passed on 08.03.2000)

⁸ The Government Regulations “On Requirements for Vessels Carrying Dangerous or Polluting Goods” (April 2000) are in compliance with Council Directive 93/75 and its Amendments by Commission Directive 96/39 and Commission Directive 97/34, established on requirements of SOLAS and MARPOL Convention.

⁹ The Government Regulations “On Passenger Registration on Ships” (April 2000) are in compliance with Council Directive 98/41.

¹⁰ Amendments to the Convention on the International Maritime Organisation, 1991, and Amendments to the Convention on the International Maritime Organisation, 1993 (accepted in Parliament April 2000); International Convention on Oil Pollution Preparedness, Response and Co-operation 1990, (OPRC) (June 2000).

14. Energy

¹¹ To transpose Directive 96/92, Regulations “*On Eligible Consumers of Electroenergy*” (September 1999) and Regulations “*On the Volume of the Consumption of Electricity in Order to Acquire the Status of the Eligible User of Electricity in Year 2000*” (December 1999) has been adopted. Energy Regulation Council has adopted “*Grid Code*” (May 2000) regulating access of producers and eligible customers to the electric networks.

¹² To transpose Directive 94/22 number of regulations have been adopted in February 2000: Regulations “*On Pre-investigation, Exploration, and Extraction of Hydrocarbons*”; “*On Tender Procedure for Licensing Offshore Activities of Hydrocarbon Pre-investigation, Exploration, and Extraction*”; amendments to the Regulations “*On Utilisation Procedure of Minerals, Deposits, and Entrails of the Earth Areas of National Importance*”; amendments to the Regulations “*On Statute of the Ministry of Economy*”; amendments to the Regulations “*On Utilisation Regulation of the Entrails of the Earth*”.

19. Telecommunications and information technologies

¹³ The draft “*Law on Telecommunications*” implements set of core EU telecommunications directives - 96/19, 97/13, 97/33, 97/51, 97/66, 98/10.

¹⁴ The Government has adopted Regulations “*On Air Quality*” in June 1999.

¹⁵ Regulations “*On the Environmental Norms for Fuel Quality*” have been adopted in August 1999. Fully transpose Directive 98/70/EC and Directive 1999/32/EC Regulations “*On Fuel Quality Standards*” has been submitted to the Government in March 2000.

22. Environment

¹⁶ Regulations “*On Environment Protection Requirements for Petrol Service Stations, Oil Terminals and Mobile Tanks*” have been adopted in August 1999.

¹⁷ The Government has adopted Regulations “*On Register of those Legal and Physical Persons who Provide Municipal Waste Collecting, Storage, Treatment, Transfer and Transposition services*” and “*On Permitting Procedure for Municipal Waste Recycling and Disposal*” (June 1999) and “*On Sitting, Management and Closure of Landfills for Municipal Waste*” (February 2000).

¹⁸ Regulations “*On Assessment, Prevention, Limitation and Control of Emissions to Air from the Stationary Air Polluting Sources*” have been adopted in April 2000.

¹⁹ EU requirements in water sector are partially transposed by Regulations “*On Water Use Permits*”, “*On Bathing Sites*” and “*On Mandatory Requirements for Harmlessness of the Drinking Water*”.

²⁰ Based on the law “*On Pollution*”, Regulations “*On Waste Water Emission Limit Values*”, “*On Surface Water and Ground Water Quality*” and “*On Water Protection Against Pollution Caused by Nitrates From Agricultural Activities*” will be issued by the end of 2001.

²¹ Regulations “*On the Elimination of Air Emissions from Stationary Air pollution Sources*” have been adopted in April 2000.

²² The drafts of the Regulations “*On Establishment, Protection and Management of Micro Reserves*”, “*On List of Specially Protected and Limitedly Usable Specially Protected Species*” and “*On List of Specially Protected Habitats*” have been prepared.

²³ Regulations “The order of determining correspondence of goods to Combined Nomenclature”; approved on June 29, 1999;

Regulations “The order of application of pre-clearance document and temporary storage of goods”; approved on January 25, 2000;

Regulations of the Cabinet Ministers “The order of carrying out the customs procedure – re-export”; approved February 29, 2000;

Regulations “The order of carrying out the customs procedure - export” was approved on November 29, 1999 (the regulation is compliant with the provisions of Commission Regulation No.2454/93 concerning export).

Regulations “The order of carrying out the customs procedure – release for free circulation” was approved on March 21, 2000 (the regulation is compliant with the provisions of Commission Regulation No.2454/93 concerning end use).

Regulations of the Cabinet Ministers “Regulation regarding issue, control and forms of certificates of origin”; approved March 7, 2000.