

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

June 2002

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A. Preface. The context of the Progress Report

Taking into account that the enlargement process has entered the final stage, particular efforts have been taken by Latvia to ensure the implementation of EU requirements. Accession negotiations, the Europe Agreement, the Accession Partnership and the Regular Report provide for an effective framework for streamlining the preparations for EU membership. The Commission's *Action Plan for reinforcing Latvia's administrative and judicial capacity*, based on the relevant priorities of the Accession Partnership, is a key tool for ensuring that preparations for accession take place in an effective way within the envisaged timeframe.

The Government has developed its internal agenda for tackling the issues underlined by the Commission in the last Regular Report. The main priority areas are the framework administrative capacity, the judiciary, the fight against corruption and the preparations for management of structural funds. The internal agenda of the Latvian Government reflects the actions envisaged in the Commission's Action Plan to a full extent. The feasibility of these plans is guaranteed by this year's State Budget.

As the moment of accession draws nearer, the role of the Parliament is crucial in raising public support for accession to the EU. The issue of greater support among citizens for EU issues is being addressed by a more active involvement of the Parliament in the vital issues related to Latvia's integration into the EU. The Parliament's Information centre has opened a new office which is easily accessible to the public and has broadened its activities.

By the summer of 2002 progress towards meeting the Copenhagen criteria has reached a stage which clearly shows that Latvia will meet the conditions for membership by the end of 2003, and that Latvia thereafter is able and willing to be an active and constructive participant in the future EU.

With regard to the **criteria on democracy and the rule of law**, it is incontestable that the rules of democracy and human rights are followed in Latvia. The long-term issue of the integration of society is being addressed consistently. Closure of the OSCE mission at the end of 2001 was a clear acknowledgement of Latvia's considerable progress in this area. On 9 May 2002, the Parliament adopted amendments to the Election Law that stipulate the removal of the state language requirements set for deputy candidates.

The Society Integration Foundation is fully operational and the resources allocated to the Foundation have been increased by 40% in 2002. Half of the funds available for the projects in 2002 will be allocated to ethnic integration projects.

The implementation of the National Programme for Latvian Language Training continues smoothly. The main objectives for 2002 are to ensure continuous teacher training, development and accessibility of teaching materials, provision of Latvian language training and promotion of community level integration activities, ensuring, *inter alia*, smooth transition to instruction in the state language in minority schools as of 2004.

Latvia's approach to encouraging and facilitating the naturalization process has resulted in a steady increase of numbers of persons choosing to become citizens. Since the beginning of the naturalization process 1995, more than 50 000 persons have acquired the citizenship of Latvia.

Strenuous efforts have been taken and will be continued in the fight against corruption and reform of the judiciary. The legislation needed fight effectively against **corruption** is mostly in place, including the law "*On Procurement for Government and Municipal Needs*", which ensures transparency and equality in competition procedures, as well as the Law "*On Prevention of Conflict of Interest in Activities of Public Officials*", aiming at improving the control of public officials. Amendments to the "*Criminal Law*" have been adopted to complete accession to the *Council of Europe Criminal Law Convention on Corruption*. With the establishment of a central

institution for preventing and fighting corruption, the Corruption Prevention and Combating Bureau, institutional capacity and inter-agency coordination has been strengthened. GRECO in its recent evaluation report on Latvia welcomed the steps taken to update legislation related to prevention of corruption and acknowledged the effort made in this area.

The **reform of the judicial system** is also well under way, backed by a 20% increase in funding. A new "*Criminal Procedure Law*" has been drafted, which will facilitate the shortening of court proceedings, reduction of the backlog of court cases, faster consideration of juvenile cases and broader use of alternative penalties. Pending the entering into force of the Law, a number of activities have been implemented to achieve these aims. Amendments to the Law "*On Judicial Power*" allow judges to consider several cases at the same time. Amendments to the existing "*Criminal Procedure Code*", aimed at simplifying and modernising the criminal procedure, have passed the second reading in the Parliament. As one of the important steps, the law "*On Sworn Court Bailiffs*" will be adopted by October 2002, thus making the enforcement of court decisions easier and more predictable. To further strengthen the independence of the judiciary, a gradual establishment of the Court Administration, free from any dependency on government structures, is envisaged by 2004. The concept of judges' salaries, drafted in March 2002, provides for the gradual increase of salaries substantially above the pay level of senior civil servants. Training of judges has been strengthened, in particular in the field of EU and international law.

With regard to an **efficient and reliable public administration**, the action plan for strengthening the administrative and judicial systems demonstrates that the Government is well aware that work remains in this area for some years to come, also in relation to future modernization and implementation of EU law. Nevertheless, consistent work over several years and the assistance received from the European Union and member states are now beginning to show results in both quantitative and qualitative change, both in the organization and in the quality of public administration.

Persistent implementation of public administration reform continues on the basis of the Action Plan of Public Administration Reform Strategy. With the adoption of the "*Framework Law on Public Administration*", the horizontal policy framework is in place. The implementation of the uniform remuneration system is ongoing and will be accomplished gradually over the next 4 years. The system will be based on the civil service grades scale to ensure equal pay for work of equal value.

The "*Law on Administrative Procedure*" was adopted by the Parliament in October 2001, providing for a sound legal framework for an effective and transparent administrative procedure. Over a period of more than two years, civil servants and judges will be trained in administrative procedures in order to ensure effective implementation of the Law.

Substantial improvements have been achieved in setting up the framework for policy coordination and strategic planning through the strengthened link between policy planning and the budget process, an improved process of decision making within the Government, and bringing the Government closer to the people. Latvia has a well-established training system for civil servants. During 2001, 9577 civil servants attended training courses.

The **second criteria on a functioning market economy** which can sustain competition has now been met. Latvia is the most rapidly growing country in Central and Eastern Europe - real GDP growth reached 7.6% in 2001.

Strict monetary policy ensures the stability of the currency and low inflation (2.5% in 2001). The state fiscal situation has improved: fiscal deficit has decreased considerably (1.8% of GDP in 2001, 2.8% in 2000); tax administration has been further strengthened; financial control has been improved.

The registered unemployment rate was 7.7% at the end of 2001. The Government continued to address the issue of structural unemployment, which is linked to regional unemployment. The Regional Fund provided support for less-developed areas and created a substantial number of work places. A positive trend in the decrease of long-term unemployment has been observed.

Macroeconomic stability, an improving investment climate and continuing structural reforms have contributed to increasing investors' confidence. The FDI inflow amounted to 2.6% of GDP in 2001, with more than half of it coming from the EU.

Due to a successful privatisation record, a strong layer of private entrepreneurs has emerged in Latvia. In 2001 the private sector accounted for 69% of GDP (68% in 2000), and 72% of employed persons were employed in the private sector (71% in 2000). Significant efforts have been made to promote competitiveness, paying particular attention to access to financial resources. During the years 2000-2002 the Government has issued guarantees to the amount of 10 million LVL for the implementation of loan schemes for start-ups and SME's. Since 2000, 375 projects were financed within this programme, ensuring creation of approximately 912 new workplaces.

The financial sector has been continuously developing, thus becoming an efficiently functioning sector of the national economy. The banking system in Latvia is well capitalized, profitable and liquid. The present supervisory and regulatory framework is robust. Soundness of the banking sector, stability of the national currency, increasing incomes and a further strengthening of the real sector of the national economy allowed the banking sector to attract more deposits. Growing economic activity and favourable lending rates fostered a more rapid increase in loans, in particular long-term loans.

Measures are being taken to improve the business environment. A modern and comprehensive company law ("*Commercial Law*") came into force. As a result of implementation of the *Action Plan to improve the Business Environment in Latvia*, customs procedures have been simplified; an appeals body has been established in the State Revenue Service and draft tax legislation has been made available for public comment.

The Latvian authorities have made considerable progress in strengthening the institutions of a market economy. The State Aid Surveillance Commission performs its duties effectively. The supervisory capacity and transparency in the field of public procurement were enhanced by establishment of the Procurement Supervision Bureau. A unified supervisor of the whole financial sector - the Financial and Capital Market Commission (FCMC) - has been effectively performing its functions since 1 July 2001. Three months later the Public Utilities Commission (PUC) started its activities. The PUC is working on a unified tariff mechanism for public utilities.

Latvia is well under way towards meeting the third criteria on **ability to assume obligations of membership**. This is an area where the constant work of many years is now showing results in a large amount of acts of legislation, which together create progress on a broad front in all the 30 negotiation chapters. The alignment to the *acquis* is accomplished especially well in the chapters relating to the Single Market.

Particular attention is being paid to the preparations for the **implementation of EU structural funds**. Latvia has already shown a remarkable efficiency in managing ISPA funds, being the first among the candidate countries to implement an ISPA project.

In order to promote rural development, the SAPARD Programme for Agriculture and Rural Development in Latvia has been elaborated and its implementation started in December 2001. Within the Programme, 212 projects were approved by the Rural Support Service by May 2002. The great interest shown by potential applicants indicates that SAPARD is an important tool for developing Latvia's agriculture and rural areas.

With adoption of the “*Regional Development Law*”, the general framework was established for the implementation of EU regional policy. The Managing Authority, the Paying Authority and the main partner institutions to be involved in Structural Fund management have been nominated. The administrative capacity of the involved institutions is being strengthened through training, as well as an increase of staff of the Managing Authority by 40 and partner institutions by 16 during 2002.

The Development Plan, which will serve as a Draft Single Programming Document, is being elaborated and will be submitted to the European Commission by the end of 2002.

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.

The Joint Parliamentary Committee comprising representatives of the Latvian and European Parliament met in Riga on 17-18 September 2001.

The fourth meeting of the Latvia – EU Association Council took place in Brussels on 19 February 2002. The fifth meeting of the Latvia – EU Association Committee took place in Brussels on 12 June 2002.

The Association Council and Association Committee welcomed the substantial progress made by Latvia in preparations for accession, especially the successful addressing of the Accession Partnership priorities, particularly in areas such as internal market, agriculture, fisheries, environment and justice and home affairs.

Bilateral trade between Latvia and EU continued to expand. During 2001 exports to the EU accounted for 61.2% of total exports. In total imports, the share of imports from the EU amounted to 52.6%. Compared to 2000, in 2001 Latvia's exports to the EU increased by 5.2% and imports from the EU increased by 14.1%.

On 12 February 2002 the EU-Latvia Association Council adopted the general terms and conditions for the participation of the Republic of Latvia in Community programmes. As a result of the entry in force of this single “framework instrument”, a number of Memoranda of Understanding laying down the terms and conditions of participation of Latvia in Community programmes, opened to the Candidate Countries, are under the negotiation between the European Commission and the relevant authorities of Latvia.

Trade with agricultural products

On 4 April 2002, the European Commission and the Ministry of Agriculture of the Republic of Latvia agreed on further liberalisation of trade with agricultural products according to Article 20(4) of the Europe Agreement. Both Parties agreed to implement new agricultural concessions in the form of autonomous and temporary legislative acts. On 14 May the Government approved the law “*On Import Customs Tax (Tariffs) Rates, the Customs Tariffs Quotas, the arrangement for additional control of import and information, applicable to agricultural products originating from the European Community*” implementing the results of the bilateral negotiations. The law is submitted to the Parliament and will enter into force on 1 July 2002.

On 2 October 2001, Decision No 7/2001 of the Association Council between the European Community and their Member States, on the one part, and the Republic of Latvia, on the other part, was signed on improvements in the trade arrangements provided for processed agricultural products in Protocol 2 to the Europe Agreement. Both Parties agreed on the application of a more favourable trade regime for processed agricultural products.

On 30 April 2002, the Government approved the Additional Protocol laying down the Trade Arrangements for certain Fish and Fishery Products to the Europe Agreement establishing an Association between the European Communities and their Member States, on the one part, and the Republic of Latvia, on the other part. The additional protocol was signed on 29 May 2002 and Latvia expects to ratify the protocol by July 2002. The Additional Protocol anticipates the procedure for implementing the negotiated tariff concessions on a gradual basis until full trade liberalisation is achieved within the three years after the Protocol comes into force.

PECA

The Protocol to the European Agreement on Conformity Assessment and Acceptance of Industrial Product (PECA) and four sector annexes to the Protocol were signed on 21 May 2002 in Brussels. Negotiations on other sectoral annexes (machinery, lifts and simple pressure vessels) are in the process of negotiations.

Negotiations

By June 2001, all 30 substantial chapters were opened in accession negotiations with the EU. Negotiations were provisionally closed in 27 chapters: Free movement of goods, Free movement of Persons, Freedom to provide services, Free movement of capital, Company Law, Competition policy, Fisheries, Transport policy, Taxation, Economic and Monetary Union, Statistics, Social policy and employment, Energy, Industrial policy, Small and Medium Enterprises, Science and research, Education and training, Telecommunications and information technologies, Culture and audio-visual policy, Regional policy and co-ordination of structural instruments, Environment, Consumers and health protection, Co-operation in justice and home affairs, Customs Union, External relations, Common Foreign and Security Policy and Financial control. Negotiations are well advanced in the remaining chapters on Agriculture, Financial and budgetary provisions and Institutions.

Community aid

In 2001-2002 the **Phare** programme remains the main instrument providing assistance to the implementation of Latvia's pre-accession strategy. Implementation of the Phare 1999 National Programme will be finished by autumn 2002. The contracting period for Phare 2000 National Programme expires in October and December 2002. Financing memorandum for Phare 2001 National Programme was signed in November 2001 and the implementation of the programme will start in June 2002.

Programming of the Phare 2002 National Programme started in March 2001. Final versions of the project fiches were sent to the European Commission in May 2002. The submitted projects cover the key issues highlighted by the Accession Partnership in the areas of social integration, civil society, market surveillance in food and non-food areas, data protection, strengthening of TSE/BSE control system, intercommunity trade statistics, employment, environmental monitoring, preparation for participation in the Schengen information system, sea border surveillance, state police, customs data systems, strengthening of public utilities regulator, public finance system and project preparation facility. The Financing proposal for the 2002 Phare Programme will be submitted to the Phare Management Committee in July 2002. The Financing

memorandum will be signed in autumn 2002. Programming of the Phare 2003 National Programme started in May 2002 by identification of priorities on the basis of the Accession Partnership and the Action Plan for reinforcing Latvia's administrative and judicial capacity.

The quality of Phare programming is being improved through greater and earlier involvement of contracting authorities in ex-ante evaluation of the project proposals submitted from line ministries.

Activities under the Phare 2000 **Economic and Social Cohesion** programme will address regional disparities through facilitation of economic and social development in two NUTS III level planning regions - Latgale and Zemgale. The programme is designed to support investment leading to increased activity and competitiveness of enterprises, higher levels of direct investment and increased retraining and employment opportunities. The project contracts have to be signed by the end of November 2002. The Economic and Social Cohesion projects of Phare 2000 will be implemented starting from the middle of 2002 until the end of 2003.

In the Phare 2001 ESC programme the whole territory of Latvia is eligible for support. This programme will promote employment in the identified national priority sectors – forestry and knowledge-based economy.

To ensure due **monitoring of Phare assistance**, during 2001/2002 Latvia successfully operated a decentralised PHARE monitoring system (established in 2000). The system is built around the Joint Monitoring Committee (JMC) and the Sectoral Monitoring Sub-Committees (SMSC). The membership of the JMC and SMSCs, their responsibilities and prerogatives have been set in the Rules of Procedure approved by the JMC on 15 November 2001. According to the above-mentioned rules of procedure, the JMC convenes once a year and the SMSCs twice a year. The last JMC meeting was held in November 2001. This year the first round of the SMSCs was held in May. Progress of the PHARE programmes and projects has been reviewed on the basis of monitoring reports prepared by Latvian implementing bodies. Last year 14 sectoral monitoring reports have been produced. In the year 2002, 13 sectoral monitoring reports will be elaborated.

Starting this year, the Foreign Assistance Coordination Department at the Ministry of Finance is charged with the overall responsibility for monitoring and ensuring the necessary liaison between the Senior Programme Officers, the Programme Authorising Officers, the National Authorising Officer, and representatives of the European Commission. These functions are carried out by two permanent staff of the Department.

In 2001, with the assistance of the World Bank, new software for computerised External Resources Monitoring System was developed. The new monitoring system will be fully operational in July 2002.

An annual allocation for the **Phare CBC programme** accounted for 1 MEUR in 1999 and 2000. Within the Phare 2001 National programme it accounted for 3 MEUR. Currently, the Phare CBC 1999 and 2000 programmes are being implemented. The Phare CBC 1999 programme comprises 12 projects. The project beneficiaries are mostly local municipalities. The projects target socio-economic development. The Phare CBC 2000 programme was launched recently, with the project proposal submission deadline of 3 June 2002. The implementation of projects is expected to begin in July 2002. The Financing Memorandum for the 2001 programme was signed in early 2002. The implementation programme is being prepared and will start in autumn 2002.

Starting from 2001, Latvia is involved in the activities of the Monitoring and Steering Committees of the Baltic Sea Region Interreg IIIB programme. The aim is to achieve better coordination between the Phare CBC and Interreg programmes, and to strengthen administrative capacity by involvement in Community Initiative programmes already before accession. Although Latvian partners cannot be the applicants, they can already be the functional lead partners in the projects financed from the INTERREG initiative.

Twinning continues to be a major tool in building up and strengthening administrative capacity with the help of expertise from EU member states. Between 1998 and 2000 Latvia completed 11 out of 17 Twinning projects approved by the European Commission. The projects cover almost all the sectors of the national economy, such as agriculture and fisheries, environment, internal market, regional policy, statistics, justice and home affairs. The total amount so far allocated to Latvia through the Twinning financial instrument is 16 MEUR.

The Phare 2001 National programme included an allocation of 0,4 MEUR for the **Twinning light facility**. The national twinning contact point – the European Integration Bureau, has overall responsibility for the programming of the Twinning light facility. The national contact point received over 20 project proposals within the first round of calls for project proposals. The finalized project fiches were submitted to the European Commission on 23 May 2002 to start implementation of the projects “Competition: Strengthening of anti - trust surveillance authority” and “Strengthening of the legal framework in telecommunications in Latvia”. The project “Harmonisation of VAT System in Latvia” fiche is under elaboration.

The Twinning light allocation for the Phare 2002 programme will be increased to 1,5 MEUR. The programming of Phare 2002 Twinning light was started in April 2002.

The total **ISPA** portfolio as at 1 July 2002 consists of 19 projects. This includes 9 transport, 9 environment projects and 1 horizontal project. The total ISPA grant contribution of 240 MEUR as at 1 July 2002 mobilized total investments of 340 MEUR. Thus, the average ISPA contribution was 70.4% or 12.6 MEUR per project. 134 MEUR have been granted to transport projects (55.7%), 105 MEUR to environment projects (44%) and 0,7 MEUR (0.29%) to horizontal ISPA measures.

The Latvian ISPA measure “Improvement of Via Baltica from 13.0 km to 21.2 km” finished in late 2001, becoming the first completed ISPA investment project in all candidate countries. Sound project management by the Ministry of Transport and the Latvian Road Administration produced savings of about 2 MEUR. With approval of the EC, the savings were spent on additional investments under this measure. Therefore, construction activities under this measure will be continued and extended into 2002.

The ISPA Monitoring Committee is responsible for general monitoring and evaluation of implementation of ISPA funded projects. The ISPA Monitoring Committee meets at least twice a year. It examines the progress of physical and financial indicators of implementation. In the composition of the ISPA Monitoring Committee a partnership principle has been ensured and a representative of NGOs is invited to take part in the ISPA Monitoring Committee meetings as an observer. The most recent ISPA Monitoring Committee meeting was held on 10 October 2001.

As concerns preparations for the Extended Decentralised Implementation System (EDIS), the Gap Assessment was started on 7 May 2002 within the ISPA project “Technical Assistance for the introduction of EDIS for management of ISPA in Latvia”. During the Gap Assessment the systems audit of each involved body will be carried out to assess to what extent the requirements of the EDIS are currently fulfilled and to identify the specific actions, changes and improvements needed to ensure compliance with the EDIS requirements.

As concerns **SAPARD**, the accreditation process of the Rural Support Service (SAPARD Agency) lasted longer than a year and a half, and on 6 December 2001 the European Commission adopted the Decision (2001/885/EC) on conferring the management of aid for implementing agencies for pre-accession measures in Agriculture and Rural Development in the Republic of Latvia in the pre-accession period. This Decision enabled the Rural Support Service to announce call for applications for the following measures of the SAPARD Programme: Modernization of agricultural machinery, equipment and construction of buildings; Afforestation of agricultural lands; Development and diversification of economic activities that provide

alternative income; Improvement of general rural infrastructure; Development of processing and marketing of agricultural and fisheries products; and Supporting Measure 1 "Training".

Within the SAPARD Programme for Agriculture and Rural Development in Latvia, by 9 May of this year 212 projects had been approved by the Rural Support Service with a total contracted amount of approximately 7 MEUR, including: (1) Modernisation of agricultural machinery, equipment and construction of buildings - 125 projects (contracted amount 5.2 MEUR); (2) Afforestation of agricultural lands – 48 projects (contracted amount 0.5 MEUR); (3) Development and diversification of economic activities providing for alternative income – 39 projects (contracted amount 1.3 MEUR).

B. Criteria for membership

1. Political Criteria

1.1. Democracy and the Rule of Law

The Parliament

The greater support of citizens for EU issues can be addressed by more active involvement of the Parliament in the vital issues related to Latvia's integration into the EU.

All six parties elected to the Parliament (the Saeima) in 1998 fully support Latvia's integration into the European Union. The Parliament's role in the integration process of Latvia into the EU is strong. The Saeima is involved in EU matters through its European Affairs Committee (the EAC). The EAC reviews and approves the negotiation chapter position papers of the Republic of Latvia prior to their submission to the European Commission. The European Affairs Committee has reviewed and accepted all negotiation chapter position papers. The Saeima European Affairs Committee takes part in all major EU policy co-ordinating institutions in Latvia – in the Council of Senior Officials and the European Integration Council, as well as in the Government's EU Accession Negotiations Group, including the accession negotiations conferences with EU representatives. The Parliamentary Secretaries play an important role in ensuring cooperation between the Government and the Saeima in adoption of laws related to EU matters. They meet regularly with representatives from the European Integration Bureau to discuss and to be informed about the most important laws for EU integration and especially about the negotiation process.

The Government has already submitted three Reports on implementation of the Strategy of Latvia for Integration into the EU to the Parliament.

In February 2002 the Saeima EU Information centre (SEUIC) opened a new office that is easy accessible to the public and broadened its activities.

Various public information projects are targeted at different groups of society. Once a week 30 regional newspapers free of charge receive ready-to-publish articles, graphs and photos prepared by the SEUIC. Twice a month EU-related feature articles are published in the Russian daily newspaper *Chas*. Every working day *Latvian Radio 2* broadcasts a news programme containing topical information about the EU integration process. The SEUIC continues to publish a weekly bulletin *Eirozinas (Euronews)* for Members of Parliament, Parliament committee staff members and opinion makers in Latvian municipalities and regions.

The SEUIC has upgraded its Internet home page and is currently carrying out the *Phare* project on Saeima database modernization and *Eurovoc* implementation. In the autumn of 2002 the SEUIC plans to launch a new telephone hotline on EU issues.

The Executive

Consistent implementation of the reform of public administration continued on the basis of the Action Plan of the Public Administration Reform Strategy. With the adoption of the "*Framework Law on Public Administration*" the horizontal policy framework is now in place. It establishes the hierarchy of public bodies under the Cabinet of Ministers, their competencies and mechanisms for co-ordination. The adoption of secondary legislation ensuring implementation of the "*Civil Service Law*" and "*Public Agencies Law*" is completed. Hence, the legal basis for creation of accountable, effective and transparent public administration is provided. Preparations

for enforcement of the “*Administrative Procedure Law*” continue to ensure open and effective administrative procedures. Reform of the remuneration system is ongoing. It aims to create a uniform and transparent pay scheme for civil servants. Substantial improvements have been achieved in setting up the framework for policy coordination and strategic planning. Latvia has a well-established training system for civil servants.

The Action Plan for implementation of the “*Public Administration Reform Strategy (for the Years 2001-2006)*” was approved by the Government on 11 December 2001. The Co-ordination Council of the Public Administration Reform Strategy was established to ensure monitoring of the strategy implementation. The Council reports twice a year to the Government on the results achieved in implementation of the Action Plan. The first semi-annual review is supposed to be submitted to the Government in July 2002.

“*The Framework Law on Public Administration*” was approved by the Saeima on 6 June 2002. The law represents a comprehensive attempt to establish a basis for transparent, accountable, and based on the rule of law public administration. It defines a clear administrative structure by determining the hierarchy of public bodies under the Cabinet of Ministers. The law defines the types of procedural arrangements between public bodies. A mechanism for horizontal co-ordination between the public bodies is determined in the law to ensure coherent operation of the Government. The law obliges to involve public in policy making.

A new “*Law on Administrative Procedure*” defining the administrative procedure in public institutions and courts was adopted by the Saeima on 25 October 2002. The Law will enter into force on 1 July 2003. Currently, the existing legislation is being adapted to the new Law. Training of civil servants and judges is being carried out to ensure an effective implementation of the Law.

The implementation of the “*Civil Service Law*” is ongoing. The confirmation of **civil service** posts and assignment of civil service status was completed in February. Since July 2001 the number of civil servants has increased from 26 781 to 27 510.

The civil servants performance appraisal system is in place. The first annual performance appraisal round was completed in December 2001.

In order to define the procedure for determination of qualification grades of civil servants, on 23 October 2001 the Government adopted the Regulation “*Order of the Assessment of Civil Service Positions and the Public Administration Institution Employees Positions and Determination of Qualification Grades*”. This provides for evaluation of civil service posts using 7 criteria: education, professional experience, complexity of tasks, mental exertion, co-operation, accountability, and decision-making. On the basis of the evaluation, the grades of civil service posts are defined according to a 22 grade scale. This will provide the basis for the pay scale, ensuring equal pay for work of equal value. In 90 out of 92 state institutions the evaluation and determination of the qualification grades has been completed.

For implementation of the unified **pay reform**, the Regulation “*On Salary, Qualification Grades and Allowances for Civil Servants and Employees of Public Administration Institutions*” was discussed by the Government on 14 May 2002. It was decided that additional evaluation of the qualification grades scale is necessary to ensure that they provide a sound basis for the unified remuneration system. The Ministry of Finance in co-operation with the Civil Service Administration will reconsider the number of grades and their correspondence to the civil service posts by 1 September 2002. The Ministry of Finance will elaborate the timeframe for implementation of the Regulation backed by the calculations on the necessary financial resources to be allocated in the state budget. The consideration of the Regulations scheduled for September 2002 will be closely related to the process of budgeting for 2003.

“*The Concept on Rotation of Senior Civil Servants*” is being elaborated to ensure better career planning and development in the civil service. The Government supported conceptually introduction of the system of rotation of senior civil servants on 21 May 2002.

The “*Disciplinary Punishment Law*” applicable to the civil service is being elaborated and will be adopted by the end of 2002 to replace the existing Regulation “*On Disciplinary Punishments of Civil Servants*” and introduce legislation which is consistent with the new “*Administrative Procedures Law*”.

Secondary legislation has been adopted to ensure implementation of the “*Public Agency Law*”. Criteria for the establishment of **public agencies** were set by the Government on 4 November 2001. On 15 January 2002 the Government approved the order of analysis of functions and operational goals of state enterprises and non-profit organisations to decide on reorganisation of them into public agencies. Around 150 enterprises and non-profit organisations have been analysed. The Government adopted on 30 April 2000 the timetable for establishment of 24 public agencies by the end of 2002.

A number of regulations have been adopted defining operational conditions of public agencies, *inter alia*, defining state responsibility for public agencies liabilities, obliging public agencies to establish internal audit units and defining the methodology for setting fees for services delivered by public agencies.

To improve **policy planning** and strengthen the link between policy planning and budgeting, the Government adopted on 9 October 2001 the “*Policy Planning Guidelines*”. “*Government Communication Policy Guidelines*” were adopted by the Government on 4 December 2001, aimed at bringing government closer to the people and involving society in policy making. On March 12, the Cabinet of Ministers adopted the new “*Rules of Internal Order of the Cabinet of Ministers*”. These will accelerate the process of decision making within the Government through the increased role of the Meeting of State Secretaries and the wider use of electronic communication. The new Rules define the hierarchy of the policy-planning documents to be elaborated and adopted to ensure implementation of the government policy. The new Rules define the order of associating new political initiatives with financial resources. The new “*Rules of Internal Order of Cabinet of Ministers*” came into force on 1 June 2002.

To improve **impact assessment** of draft legislation, the Government adopted on 18 September 2001 the “*Instruction on Preparation of Annotation for Draft Legislation*”. The Instruction defines the procedure for fiscal and social impact assessment of not only draft laws but also Government regulations.

In order to ensure **medium term budget planning**, on 26 September 2001 the Government approved the Order “*On Mid-term Budget Aims and Prior Development Directions*” for the years 2002-2006. The Order defines criteria to be used in evaluation of ministry requests for funding.

The Government Regulations providing for voluntary introduction of the **Quality management system** in public administration were approved on 4 December 2001. The Ministry of Economy is the first among the central government bodies to introduce the quality management system according to ISO 9000:2001 by the end of 2002.

Latvia has a well-established **training system** for civil servants, which is operational since 1993. During the year 2001, 9577 civil servants attended training courses at the Latvian School of Public Administration. Training priorities lie in the area of EU policies, administrative procedures, legal drafting, prevention of corruption, project management, internal audit, strategic management, personnel management and quality management.

Anti-corruption

Preventing and fighting corruption remained among the priorities of the Government. The main preconditions for the effective implementation of this priority have been set. The renewed *Corruption Prevention Programme* (adopted in May 2001) has been largely implemented. Legislation has been further improved to complete the overall legal and institutional framework. Involvement of the public has been further encouraged. In its recent evaluation report on Latvia GRECO welcomed the steps taken to update legislation related to the prevention of corruption and acknowledged the effort made in this area.

On 1 January 2002, the Law "*On Procurement for Government and Municipal Needs*" entered into force and the Public Procurement Surveillance Bureau was established in order to enforce transparency, surveillance and review mechanisms in the public procurement procedure.

The Law "*On Prevention of Conflict of Interest in Activities of Public Officials*", replacing the "*Corruption Prevention Law*" and aiming at improving the control of public officials, is in force since 10 May 2002.

On 25 April, the amendments to the "*Criminal Law*" were adopted by Parliament. The amendments introduce, *inter alia*, criminal liability for trading in influence, for offering a bribe, and specify the concept of a public official (for example, foreign public officials and judges of international courts also belong to the category of public officials). The amendments were necessary in order to complete accession to the *Council of Europe Criminal Law Convention on Corruption*.

In April, the Law "*On initial fixation of property*", which establishes a threshold for submission of declarations on property and excludes the possibility of referring to the savings before the time of initial fixation of property, was adopted by the Saeima in the first reading.

The Law "*On Financing of Political Parties*" (adopted by the Committee of the Cabinet of Ministers) facilitates the separation of business and political elites. It provides for direct state financing of political parties, establishes the restrictions on donations from legal and natural persons, prohibits anonymous donations and provides for the establishing of an effective control mechanism over the financial resources of political parties.

The Law "*On the Accession to the Civil Law Corruption Convention of the Council of Europe*" has been prepared and is expected to be adopted by the Government by July 2002.

The "*Administrative Procedure Law*" (adopted by the Saeima in October 2001 and scheduled to enter into force on 1 July 2003) provides a legal framework for an effective and transparent administrative procedure. The Law ensures speedy and fair protection of a person's interests against potential unlawful decisions taken by civil servants, and provides for the protection and encouragement of 'whistleblowers'. For two years, civil servants and judges will be trained in the administrative procedures to ensure effective implementation of the Law (*see also The Executive*).

In order to increase the efficiency of the supervision of the state anti-corruption policy and its coordination with the policies for fighting other forms of crime, the Corruption Prevention Council has been merged with the Crime Prevention Council, establishing the Corruption and Crime Prevention Council, chaired by the Prime Minister.

On 1 May 2002, the Law "*On the Corruption Prevention and Combating Bureau*" entered into force. The Bureau will start working on 1 July 2002, and will be the central institution dealing with the issues of corruption prevention and the fight against corruption. The Bureau will be under the supervision of the Government, and the Head will be appointed by the Parliament. LVL 380 000 have been allocated for the bureau in the 2002 state budget. It is planned, within a year from the date of establishing of the Bureau, to increase its staff from approximately 30 to 100 positions. The co-operation agreement with the US provides for the training of the

employees of the Bureau by US experts. With the establishment of the Bureau, institutional capacity and inter-agency cooperation in the fight against corruption will be strengthened.

Proper and efficient functioning of public administration and prevention of corruption is promoted by the implementation of the previously adopted anti-corruption plans and by ensuring internal audit within the state institutions.

In Customs, since 2001 heads of territorial customs units perform regular risk analysis once a year with regard to the positions of high corruption risk. On the basis of this analysis, the decisions of the heads of these positions are double-checked. Once a year, anonymous opinion polls of customs clients and persons crossing the border are organised. Hot-line (operational since 1998) information is regularly analysed and suspicious cases investigated. In 2001, 15 internal audits (compared to 19 in 2000) and 77 other inspections (23 in 2000) were carried out by the Internal Audit Unit of the Customs Administration, as a result of which 27 disciplinary measures (52 in 2000) were applied, including 1 dismissal (4 in 2000). In total, disciplinary measures were applied to 161 persons in 2001 (191 in 2000), including 4 dismissals (17 in 2000). Four persons were detained for attempting bribery. On 25 October 2001, the Customs Officials Code of Ethics and Conduct, which was prepared within a Phare project and in accordance with recommendations of the World Customs Organisation, was approved. The principles of customs ethics are included in the basic training programme for customs officials, as well as in the curriculum of the Customs College and the Riga Technical University International Economic Relations and Customs Institute. Within a Phare project, a training programme for customs officials on corruption prevention has been developed and 8 customs officials trained as trainers. Since 1998, video-monitoring systems are being introduced in the newly built border control points. Currently 6 land border control points out of 15 are equipped with these systems. A Video-monitoring Centre has been established in the Customs Administration, which will make it possible to connect on-line with any border control point and receive information about the activities of customs officials. Currently, 3 border control points have on-line connection with the Centre. In total, LVL 807 009 were allocated for the video-monitoring systems in 2002 (LVL 484 209 from the state budget, 322 800 as a loan from the World Bank).

In order to prevent corruption in the Police, a series of activities have taken place, including the improvement of the control of document flow, and the rotation of road police officers, which takes place twice a year. In 2001, the Ministry of Interior carried out an internal audit of the State Police. Regular selective internal inspections of any three territorial police boards are carried out each year. In 2001, 15 police officers were detained for delinquent behaviour (compared to 23 in 2000), and 7 sentenced (5 in 2000). In accordance with the Law *"On Prevention of Conflict of Interest in Activities of Public Officials"* and taking into account the European code of police ethics, principles of police ethics are being prepared by the State Police, the adoption of which is expected in July. Training on anti-corruption is included in the curriculum of the Police school and the Police Academy. 4 police officers have attended seminars on corruption prevention and police ethics organized by the Council of Europe.

In 2001, 56 cases of abuse of official status, 53 cases of passive bribery and 12 cases of active bribery were detected in state institutions. 5 persons were sentenced for the abuse of official status, 11 for passive bribery and 6 for active bribery.

A series of seminars concerning the investigation of corruption cases have been held for judges, prosecutors, policemen and representatives of the mass media within the Phare project on anti-corruption legislation, education and public information completed in October 2001.

Computerisation of courts and the development of a unified court information system has continued. The civil case management system will be completed by December 2002 and the criminal case management system in July 2003. Within the Phare project "Prevention of corruption within the court system" started in February 2002, an internet portal will be developed

by the end of 2002, which will provide the court employees, journalists and any other person with access to court information. All this will ensure effective access to information and transparency of the court system.

Transparency in lawmaking is ensured by on-line access to draft legislation and compulsory consultations with NGO's. The Latvian affiliate of Transparency International, Delna, is taking part in the selection of the candidates for the position of the Head of the Corruption Prevention and Combating Bureau. Following the regular dialogue on anti-corruption measures between the Government and the Foreign Investors' Council, the Ministry of Justice has developed an action plan for the implementation of the recommendations of the Council.

In 2002, the Criminology investigation centre under the supervision of the Ministry of Justice began a public opinion poll on corruption, the results of which will be published by July 2002. Within the OECD Baltic Anti-corruption initiative, research on corruption in the fields of public health and licensing has been started. The results are also expected by July 2002.

Judicial system

Strengthening the effectiveness and independence of the judicial system is an area to which Latvia attaches the utmost importance. The efforts here have been continued on the basis of the Development Programme of the Judicial System for the years 2001-2006, which concentrates on areas such as speeding up of court proceedings, enforcement of court decisions, modernization of courts and training of judges.

Funding for the judiciary was increased by 20 % in 2002. The budget for the Ministry of Justice increased from LVL 25 845 085 in 2001 to LVL 28 551 258 in 2002. The increase in staff was from 175 to 203.

A new *Criminal Procedure Law* has been drafted and will enter into force by 2004. It will provide for the simplification of court proceedings by means such as, for example, early decision taking by authorising the prosecutor to waive the prosecution, and diversifying the hearing procedure. In cases of inadmissible delays in the process according to the standards of the European Human Rights Court, the Law provides for the right to close such cases. This will facilitate the shortening of court proceedings, reduction of the backlog of court cases, faster consideration of juvenile cases and broader use of alternative penalties. The overall goal of the criminal procedure is to obtain the truth in a legal and objective manner and to achieve fair regulation of legal relations without unjustified expenses, unjustified delays and unjustified interference.

Pending the entering into force of the new *Criminal Procedure Law*, a number of activities are being implemented to achieve the abovementioned aims. Amendments have been made to the existing *Criminal Procedure Code* to provide for an even case distribution among courts. Priority is given to the fast consideration of juvenile cases. In addition, amendments to the Code aimed at simplifying and modernising the criminal procedure are expected to come into force by July 2002.

On 19 February 2002, the Government adopted amendments to the Law "*On Judicial Power*" that allow judges to consider several cases at the same time.

Following the legislative amendments that provide for an even case distribution among courts, in November 2001, in view of the large volume of cases under consideration, some of the cases of the Riga Regional Court were transferred to another Regional Court to ensure faster court proceedings.

The Law "*On Sworn Court Bailiffs*" (which has passed the first reading in the Saeima) aims at establishing an effective mechanism for enforcement of court decisions. The Law stipulates that

sworn bailiffs, while exercising an independent profession, have the rights and obligations of a state official. The Law provides for the establishing of the Sworn Bailiff Council that will take over the supervision of sworn bailiffs from the Bailiff Department of the Ministry of Justice. The law is expected to come into force by October 2002. A training plan of court bailiffs is being prepared.

On 1 January 2002, the amendments to the law "*On Judicial Power*" entered into force, according to which judges receive the same social guarantees and benefits as civil servants, as well as compulsory life and health insurance provided by the state.

In order to further strengthen the independence and efficiency of the judicial system, a gradual establishment of the Court Administration is envisaged by 2004. The Court Administration should be free from any dependency on government structures. It will be responsible for the management of courts and organization of training of court personnel. The Concept of Court Administration has been drafted and submitted to the Government. Following the adoption of the concept, implementing laws will be prepared.

One more measure providing for the independence of the judiciary is the planned increase of judges' salaries. In March 2002, the Ministry of Justice drafted the Concept of Judges' Salaries that provides for the gradual increase of salaries reaching the amount of LVL 720-930 in 2005, which is substantially above the pay level of senior civil servants. In 2003, the salaries should comprise 70% and in 2004 – 80% of the planned amount.

On 19 February 2002, the Government adopted amendments to the Law "*On Judicial Power*" that stipulate the increase of minimum age of an applicant judge from 25 to 28, as well as introduce the requirement of 3 years judicial background.

Modernization of courts continued by upgrading the infrastructure of court buildings and setting up a unified information network. The refurbishment of the new premises of the Riga Regional Court, which faces a particular problem of backlogs, will be completed by September 2002. The reconstruction of the Daugavpils Regional Court will be completed by July 2002 and of the Riga District Court by December 2002. Delivery of the technical equipment for hearing by videoconference has taken place in the Riga Regional Court. Delivery of the equipment for 5 courts will be provided within the Phare 2001 project „Effective prevention, control and combat of organised crime“. All these measures will not only speed up court proceedings, but also ensure protection of witnesses, effective access to information and transparency of the court system.

Training of judges has been further expanded. At the same time an even more fundamental change of the training of lawyers is being prepared under a co-operation programme between Latvia and Denmark, which aims at modernising the law studies at the University of Latvia regarding curriculum, teaching and examination methods, and textbooks.

The state budget for the Judge Training Centre increased from LVL 40 000 in 2001 to LVL 60 000 in 2002. Training plans for the year 2002 include the training of approximately 300 judges at least once a year, and approximately 200 judges twice a year or more frequently.

A series of seminars on European law, human rights, corruption, economic crimes, narcotic and toxic substances, intellectual property rights has been organised. Within a Phare project completed in October 2001, 20 judges attended seminars on corruption issues. More than 10 judges have been trained in intellectual property rights, partly at the seminars organised within the Latvian-Swedish project "Harmonisation of legislation: integration into the European Union". 13 judges participated in the seminar on software piracy, organised by the Business Software Alliance for the judges from the Baltic States in Riga in May 2002. 39 judges have been trained in European law within the Phare project. A group of 10 judges will act as trainers of other judges. In addition, 6 judges have been trained in European law within a Phare horizontal programme. The number of trainers in European law will increase by 20 judges when

the project with Sweden (commenced in January 2002) is completed. More than 60 judges attended seminars on European law and took part in the discussion on the efficiency of justice organised by the German Fund for International Legal Co-operation. In February 2002, training of judges in human rights, supported by the Soros Foundation, was commenced. The training project will be completed by the end of 2002 and 12 judges will be trained as trainers. A summary of judgements of the European Human Rights Court has been prepared as a reference for future work. 50 judges took part in a seminar "Issues related to independence of court power", organised by the Riga Law School. Seminars within the project of "Reform of Latvian Criminal Proceedings" in co-operation with Canada have been organised.

On 28 February "*The Law on Prisons Administration*" passed the first reading in the Saeima. The Law defines the status of Prisons Administration (under the supervision of the Ministry of Justice) and its staff (civil servants).

The implementation of the State Investment Programme "Reconstruction of prisons" has continued, in the course of which new buildings meeting European standards have been constructed and prison conditions improved. In 2002, LVL 1 490 000 were allocated for the implementation of the programme. Reconstruction of Liepaja prison, as well as the second block with 170 places of the Central prison and a block in Matisa prison have been completed. Reconstruction work is going on in Olaine prison (including the building of Tuberculosis hospital), Central prison, Jelgava prison and Matisa prison. All necessary educational and health facilities are available at prisons, including libraries, gyms, recreation rooms and chapels. In order to improve the observance of human rights of prisoners, as well as prison conditions, Regulations such as internal rules on imprisonment, payment for work by prisoners, financial aid to released prisoners, medical aid, providing of nourishment and other means for daily needs, children staying with their sentenced mothers have been adopted.

In 2002, LVL 15 070 324 were allocated for the Imprisonment Places Department for the implementation of the state investment programme, an increase of 488 156 compared to 2001. The replacement of soldiers with professional prison guards will be completed by 2003. LVL 2 109 945 have been allocated for the reform within the NATO programme.

Several social rehabilitation programmes are being implemented in co-operation with NGOs, including a special programme for juveniles.

Work on establishing a probation service has continued. The Concept of State Probation Service as well as a draft Law on State Probation Service have been prepared. The Service will be established by 2003.

1.2. Human rights and protection of minorities

Latvia satisfies the political criteria for EU Membership, continues implementing the Accession Partnership priorities and has acceded to most of the major international human rights instruments. On 30 April 2002, the Government signed Protocol No. 13 to the Convention for the Protection of Human Rights and Fundamental Freedoms, concerning the abolition of the death penalty in all circumstances. In 2002, financing for the Society Integration Foundation has been significantly increased. Updating of the National programme "Integration of Society in Latvia" has been envisaged by the end of 2002. The number of naturalisation applications has increased by about 30% during the first three months of 2002. Free of charge language courses for those wishing to learn Latvian continue. The state supports transition to secondary education in the state language starting at 2004. The OSCE Mission in Riga was closed on 31 December 2001.

In the field of **civil and political rights** as of 1 July 2001, individuals have the opportunity to turn to the Constitutional Court regarding violations of their rights. By 1 June, 16 cases have been regarded admissible; 575 complaints in total have been submitted to the Constitutional Court. The Court has pronounced 12 judgements.

On 9 May 2002, the Parliament adopted amendments to the Election Laws (the Saeima Election Law and the law on municipal, regional and local government elections) deleting the requirement of state language proficiency for persons running for elected office.

On 6 December 2001, the Latvian Parliament ratified the European Social Charter. Latvia has selected 10 Articles of Part II of the Charter as binding, guaranteeing the right to work, the right to organise, the right to bargain collectively, the right of employed women to protection, the right to vocational guidance, the right to protection of health, the right to social and medical assistance, the right to benefit from social welfare services, the right of the family to social, legal and economic protection, the right of mothers and children to social and economic protection. The Charter entered into force on 2 March 2002. The first report should be submitted to the Council of Europe by 31 March 2004.

Latvia continues to provide state funded **education** for Russian, Belarussian, Ukrainian, Polish, Lithuanian, Jewish, Roma and Estonian **minorities**. There are 173 Russian schools, 149 schools with two languages of instruction (Latvian and Russian), 6 Polish, 2 Jewish, 1 Ukrainian, 1 Estonian, 1 Lithuanian and 1 Belarussian school, as well as Roma classes in two schools.

The state will continue to provide funding for education of minorities after the completion of **education reform**. The education reform, which was started in 1998, stipulates that as of 2004 the 10th grade of state and municipal general education establishments and the 1st year of state and municipal vocational education establishments will start studies in the state language. Studies in the state language mean that 70% of subjects will be taught in Latvian and 30% in the minority's native tongue (e.g. language, literature). It means that complete transition to education in the state language in the secondary schools (10th to 12th grade) will take place in the 2007/2008 academic year. The primary schools will continue studying bilingually.

The state continues to support this transition by financing further education for teachers, allocating bonus payments to the salaries, purchasing teaching material, producing teaching aids and informing the public about the reform.

Financing of further education for teachers working with minority education programmes is provided in the framework of the National Programme for Latvian Language Training (2001 – LVL 428 000; in 2002 –LVL 527 000), in the education courses supported by the Ministry of Education and Science (9 groups, LVL 7000 in 2001; 10 other groups planned, LVL 7500 in 2002), in four bilingual education centres in Rezekne, Daugavpils, Riga and Liepaja financed by municipalities; in the framework of eight educational projects supported by the Society Integration Foundation (LVL 12 500).

The transition to secondary education in Latvian is promoted by purchasing teaching materials in Latvian for minority schools (LVL 50 000 annually). Bonus payments (up to 30%) to teachers' salaries for those who teach in Latvian and bilingually have been allocated from the state budget (in 2001 – LVL 757 049, received by 5 576 teachers working at schools with minority education programmes; LVL 808 368 allocated in 2002). From September 1999 the state has allocated an additional LVL 2 430 270 to the above teachers.

New teaching aids have been elaborated in promoting this transition, including teaching aids for the bilingual method. The Ministry of Education and Science approves about 20 teaching materials annually, which are used in minority education programmes (in two languages).

The Ministry of Education and Science informs the public about the transition to secondary education in the state language. Brochures on bilingual education for parents, teachers, and

students financially supported by the OSCE and the Ministry of Education and Science have been published in 2002, for example, an informative brochure *"Tagad"* dealing with bilingual education issues. A brochure for parents "Know your options when choosing a study language" will be published this year. Conferences and seminars have been organised for minority school directors, teachers and parents.

Statistics of the licensed general secondary educational programmes in 2001 confirm that 60% of schools have planned and are ready to provide training in the Latvian language because already now subjects are taught bilingually. These schools can prepare for the changes until 2007 when a complete transition to the educational programme in the state language at secondary educational level will be accomplished. In the 2001/2002 academic year 76% of first-graders began studying in Latvian.

Latvia's total population is about 2.34 million. Citizens constitute about 1.78 million (76.3%), non-citizens – 523 095 (22.4%). The number of citizens is growing slowly but steadily (74.3% in 2000; 76.3% in 2002) and the number of non-citizens is decreasing (24.6% in 2000; 22.4% in 2002).

By 1 June 2002, more than 54 000 **naturalisation** applications have been received and 53 681 persons have received the citizenship of Latvia since the beginning of naturalisation in 1995. Altogether, 7 156 children had been granted the citizenship of Latvia by 1 June. 10 637 persons obtained the citizenship of Latvia in 2001. During the first five months of 2002, 3 295 persons acquired the citizenship of Latvia. In the first three months of 2002, the number of naturalisation applications increased by approximately 30% if compared to the same time last year (2 997 in 2002; 2 298 in 2001). It can be predicted that the naturalisation pace this year will be the same as in 2001 and the potential number of applications will be approximately 10 000.

The increase in the rate of naturalisation during the first months of 2002 is due to a positive influence of two factors: completing of the second stage of free language courses for persons wishing to naturalise and an information campaign.

In the framework of the project "Teaching of Latvian language to persons wishing to obtain Latvian citizenship" 1 700 non-citizens have learned (by the end of May) the state language at a level necessary for naturalisation. The project was basically financed by international donors, although some Latvian municipalities participated by financing, for example, the City Council of Liepaja.

For the first time the language training courses for the persons who expressed their wish to become citizens of Latvia are financed by the state. The Society Integration Foundation has allocated LVL 32 000 to the project. From May to December 2002, 250 applicants for citizenship will have an opportunity to learn the Latvian language free of charge.

The Society Integration Foundation has adopted a concept for further development of the state language training system for naturalisation candidates indicating sources of financing (from the national budget in 2003 – LVL 200 000) and gradually increasing the number of places in the courses by 5 000 per year.

At the end of 2001, an extensive campaign of informing the public on citizenship issues was started, including advertising in mass media, advertising in regional newspapers, internet web-site (www.pilsoniba.lv) and citizenship day at Latvian schools. Informative advertisements in mass media reached 89.2% of the target audience, while approximately 80% Latvian schools participated in citizenship days and approximately 100 000 non-citizens received an informative booklet by mail.

As of September 2001, a free informative hot-line (8002050) started to operate at the Naturalisation Department on Latvian citizenship and related issues. By 1 April 2002, 10 550 calls were registered.

The implementation of the State Investment Project “Development of automated system of naturalisation process” (started in 1997 with EU Phare and Council of Europe financial support) continues. At present, the automated information system makes it possible to review naturalisation applications within 5 – 7 months, but in 2005 this could be reduced to 4 – 5 months.

For strengthening the administrative capacity of the Naturalisation Board a total of 241 civil servants participated at in-service training courses in 2001.

The **Society Integration** Department of the Ministry of Justice is developing a mechanism for co-ordinating the implementation of the National Programme “Integration of Society in Latvia”, i. e. a monitoring system for the projects implemented (by June) and an annual renewal of the Programme by setting priorities for society integration. An up-date of the National Programme “Integration of Society in Latvia” is planned by the end of 2002.

The Society Integration Foundation, which is one of the main implementing mechanisms of the National Programme “Integration of Society in Latvia” is fully operational. The law on the Society Integration Foundation was adopted on 5 July 2001. The Foundation had its first meeting on 25 October 2001.

The Foundation Council is the decision-making body of the Foundation, its activities are ensured by a Secretariat, and projects are assessed by a Committee. The Foundation Council comprises 16 persons: five ministers concerned with integration (Minister of Justice, Minister of Culture, Minister of Welfare, Minister of Education, Minister of Environment and Regional Development), five representatives of local governments, five representatives of NGO's and a representative of the State President. The Foundation reports on the use of the budget resources to the Ministry of Justice and publishes an annual report in the Official Journal “*Latvijas Vestnesis*”.

21 project were supported by the Society Integration Foundation last year, including 17 projects on ethnic integration (LVL 38 522 and financing of LVL 20 000 reserved for the project “Teaching the Latvian language to persons who wish to naturalise”); 4 projects on social integration (LVL 68 323). Three projects are completed to date.

During the first half of 2002, 50% or LVL 60 000 of the funds available will be devoted to the ethnic integration programme, 30% or LVL 36 000– to the social integration, and 20% or LVL 24 000 – to regional integration. A total of 390 project applications have been submitted to the Foundation for approval in the first half of this year.

The Society Integration Foundation funding (from the state budget) for 2001 was LVL 200 000, for 2002 – LVL 282 000. Additional financing for 2003 has been requested.

The Foundation has organised 11 seminars all over Latvia on the tenders, procedure of drafting and submission of project applications, as well as to discuss society integration with the representatives of regional municipalities and non-governmental organisations. 586 persons attended the above seminars.

Training of the Foundation staff on project management is planned in September under the Phare 2000 project “Society Integration in Latvia”. Three experts on project monitoring, internal audit and operating with database are expected to start training the Foundation staff in August.

The Society Integration Department in the Ministry of Justice, which is responsible for coordinating the implementation of the National Programme “Integration of Society in Latvia”, is working on the monitoring and up-dating of the National Programme. For the improvement of qualifications of employees of the Department, the following activities took place: training visit to Sweden from 1 to 7 December 2001; English language courses from February to April 2001 (50 hours) and from March to May 2002 (50 hours); strategic planning seminars in January and

April 2002; an *ad hoc* support in public relations was provided by a UNDP public relations consultant from January to April 2002.

From 1996 to May 2002, a total of 53 254 persons have attended the **Latvian language courses**, which are free of charge, organised by the National Programme for Latvian Language Training (NPLLT). From January to May 2002, 365 courses were organised. They were attended by 5 160 persons (teachers, policemen, medical staff, the disabled, army recruits, employees of municipalities, journalists).

557 minority schoolteachers attended the courses on the bilingual method of teaching. 20 methodology seminars on teaching Latvian as a second language were organized; a booklet on "Bilingual education for parents, students and teachers" has been published; three issues of the magazine "Tagad" have been published; an educational material "Latvian as a Second language for primary schools" (grade 1 – 3) has been prepared and publishing is in progress; 10 Latvian and 10 Russian radio broadcasts on integration have been prepared and broadcast since May 2002; preparatory work for an educational film for the fifth level "Paliga" is accomplished and broadcasting on Latvian TV will start in October 2002; 40 contracts have been signed on management of summer camps as an informal integration activity; 20 training courses on bilingual education for teachers have been organized; 26 training courses on primary education methodology for minority schools teachers have been organized; seminars on bilingual education for parents have taken place where 200 participants attended and a further 7 seminars are planned by September 2002.

The implementation of the "**State Language Law**" and normative acts subject to it is supervised by the State Language Centre on the basis of the proportionality principle and other legal principles, and does not contradict international standards. While monitoring observance of the *State Language Law*, especially language use in public information with regard to legitimate public interest, the State Language Centre has issued 7 warnings and awarded 83 penalties (most widespread problems – insufficient knowledge of the state language as necessary for special professional duties, or disregard of governmental regulations when providing information to the general public). With the transfer of the function of testing (attestation) of the state language skills from the Ministry of Justice to the Ministry of Education and Science, the number of employees at the State Language Centre has been reduced from 155 (in 2000) to 43 (in April 2002), including 17 civil servants. In-service training for 17 civil servants of the Centre (mainly language inspectors) started in September 2001 and continues in 2002. By mid-April, 782 training hours on the EU, EU law, conflict of interests, client-oriented communication, conflict management, English, PC, management psychology and other subjects took place. For the increase in the number of language inspectors from 14 to 29, additional LVL 66 794 have been requested in the budget of the institution for 2003.

On 30 April 2002, the Parliament adopted amendments to the Constitution aimed at strengthening the status of the state language. The amendments to the Constitution concern four articles: Article 18 has been supplemented with a loyalty oath of newly elected MPs; Article 21 establishes Latvian as the working language in the Saeima; Article 101 establishes Latvian as the working language in municipalities; Article 104 has been supplemented with the provision that when addressing state or local government institutions everyone has the right to receive a reply in Latvian.

2. Economic Criteria

Over the last two years, the Latvian economy has experienced rapid growth accompanied by increasing macroeconomic stability, showing that Latvia has a stable economy and is able to cope effectively with external shocks.

In 2001, despite the slowdown in the world economy, the economic performance of Latvia has been very successful, with growth remaining high throughout the year. Successful monetary policy ensures price stability – inflation is low, regardless of rapid GDP growth. The state fiscal situation has improved. The fiscal deficit is decreasing considerably; tax administration is being further strengthened and financial control is being constantly improved. Unemployment remained at the same level. Measures are being taken to improve the business environment. Sufficient macroeconomic stability and the high potential of the Latvian economy have attracted foreign direct investments.

Latvia has made continuous and steady progress in its programme of economic reforms and strengthening of the market economy. Many key reforms have been implemented and appear to be efficient. Latvia has succeeded in filling the remaining gaps in the regulatory and supervisory framework, as well as in the financial sector and simplification of the legal environment for enterprises. The structure of the Latvian economy has been progressively evolving towards the structure in the most advanced industrialised economies.

2.1. Macroeconomic Developments

At present, Latvia's **economic growth** is the highest in Central and Eastern Europe, facilitating gradual convergence of per capita income towards EU levels. Growth has been fairly well balanced in all main economic sectors, with a considerable increase in the service sector.

The deceleration of the world economy has had a limited impact on the growth of Latvia's economy: in 2001, in spite of slowing growth among Latvia's main trading partners, Latvia's real **GDP growth** reached 7.6%. The continuous growth was supported mainly by strong domestic demand. Services (8.1%) and manufacturing (9.5%) were the sectors experiencing the highest growth in 2001 as compared to 2000. Furthermore, positive developments were observed in agriculture, hunting and forestry (6.8%), the gas, electricity and water supply sector (6.6%) and construction (6.1%).

The agricultural sector has been declining in relative importance (down to 4.1% of GDP in 2001), while the service sector accounts for an ever-growing share of output at 70.6% of GDP in 2001. The service sector has been one of the most dynamic parts of the Latvian economy in recent years and constitutes an important share of exports (around 36%).

Over the last years, **inflation** in Latvia was one of the lowest among the CEE countries. The annual average inflation rate amounted to 2.5% in 2001. The administratively regulated prices in 2001 increased by 0.7 %. The rise in annual inflation was largely determined by external factors, mainly by growing food prices in Latvia's major trading partner countries.

The registered **unemployment** rate was 7.7% at the end of 2001. The rate of jobseekers shows a general downward trend over the period of 1999-2001, declining to 12.9% at the end of 2001. To address the issue of structural unemployment, which is strongly linked to regional unemployment, the Regional Fund was established in 1998 with the main task of promoting entrepreneurial activities and contributing to the foundation capital of enterprises. Owing to the Regional Fund activities, 580 permanent and more than 1 000 seasonal work-places were created and 400 workplaces were kept in the assisted regions in 2001. Furthermore, in 2001 10.1% (6.9% in 2000) of registered unemployed persons were involved in active measures to promote employment (training, courses, temporary public works). 67.8% of those who received special training have found employment afterwards. A positive trend in the decrease of long-term unemployment has been observed – the share of long-term unemployed in the total unemployment decreased from 29.0% in 2000 to 26.6% in 2001. To address the issue of regional unemployment, the State Employment Service (LSES) has appropriate regional structures (28 local offices and 34 subsidiaries). In order to improve information flow between the branch

offices, computerisation of the Service is being carried out. In July 2001, LSES launched two new pilot projects "Subsidised workplaces for the unemployed of pre-retirement age and disabled unemployed" and "Training for the young unemployed". Hansabank, within the framework of the EC Small and Medium Enterprises Finance Facility, will give credits to enterprises situated in the less developed regions of Latvia.

The Central Bank is conducting a successful **monetary policy** – pegging of the Lat to the SDR. The peg has fulfilled its main goal of ensuring price stability. During 2001, monetary conditions remained sufficiently tight to maintain the exchange rate objective. The Bank of Latvia intends to keep the lat pegged to the SDR. Foreign reserves of the Bank of Latvia increased by 38% in 2001 as compared to 2000. Broad money supply increased by 21% during the year. Growth in the money supply was determined mainly by an increase in domestic loans (by 35.6%) that indicates a continued development of financial markets and increased confidence in the banking system and the economy in general.

In 2001, progress towards a gradual reduction of the state budget fiscal deficit continued. In 2001, the general government consolidated **budget deficit** of 1.8% of GDP is one of the lowest among the candidate countries, decreasing considerably from 2.8% of GDP in 2000. The increase in budget expenditure planned for 2002 is mainly determined by growing investment needs and integration into the EU and NATO. The Government has undertaken to ease the tax burden – to reduce gradually the corporate income tax rate from 25% to 15% over the period of 2002-2004, while the social insurance contribution rate will be reduced by 2 percentage points in 2003. The **government debt** has increased mainly because of the issue of 7-year eurobonds to the amount of LVL 200 million in November 2001. However, it still remains at a comparatively low level of 15% of GDP.

In 2001, Latvia's **exports** grew by 11.1% and **imports** by 13.8% as compared to the previous year. Although the falling demand in European countries caused a decrease in exports growth in the second half of 2001, the annual growth rate of exports was nearly the same as in 2000. A more rapid increase in imports has been driven by a rising domestic demand. The share of wood and wood articles in the total exports has decreased, while that of machinery and transport vehicles has grown from 6.9% in 2000 to 8.3% in 2001, suggesting an increase in the value-added content of the exports. Machinery, mechanical and electrical appliances constitute the largest part of total imports from the EU (21.1%), leading to expectations of a rise in productivity and enhancement of the ability to withstand competitive pressures in the future.

In 2001, the **current account deficit** amounted to 10.1% of GDP. It was determined by the slowing external demand and by growing domestic demand. Moreover, the Latvian Shipping Company bought three new ships at a value amounting to 1.5% of GDP, thus significantly worsening the current account. As a result of the purchase, growth of imports of goods pulled ahead of growth of exports of goods. A notable share of the current account deficit was financed by FDI.

The share of the **private sector** in the economy keeps growing: in 2001, the private sector accounted for 69% of the GDP, and 72 % of the employed population was employed in the private sector. In sectors of the economy such as manufacturing, agriculture, fishing, construction, trade, hotels and restaurants the share of private companies in gross value-added exceeded 90%.

Since the completion of mass **privatisation** the Government of Latvia has laid emphasis on the privatisation of large state-owned public utilities. Simultaneously the public service regulators are being strengthened and the sectors gradually liberalised. There are only a few large public utilities which the Government of Latvia has decided to retain as state-owned companies – *Railway, Post Office, International Airport* and the national energy company *Latvenergo*.

Public offer of the remaining state-owned 3% shares in the joint stock gas company *Latvijas Gaze* was successfully completed in February 2002.

According to the regulations for privatisation of the Latvian Shipping Company (*Lasco*) the public offer of 32% of *Lasco* shares for privatisation vouchers was completed on 22 March. The next step in the privatisation process will be the offering of 51 percent of *Lasco* shares for money on public offer at the Riga Stock Exchange. These shares are expected to be auctioned by mid-2002. The privatisation of *Lasco* is being advised by the Riga Stock Exchange and the investment house *Williams de Broe*.

The basic conditions have been elaborated for privatisation of the shares of the state capital in JSC "*Ventspils nafta*" (the state possesses 32 % of the shares) and *Latvijas Krajbanka* (Latvian Savings bank) (the state possesses 42 % of the shares).

The Government is ready to proceed with privatisation of JSC *Lattелеkom* as soon as the arbitration case filed in the International Court of Arbitration by the private shareholder *TILTS Communications* (co-owned by *Sonera* and *IFC*, in possession of 49% of shares) is settled.

The Saeima has adopted the package of laws providing for liquidation of the Privatisation Agency.

Growth of investments is an essential indicator of economic potential. Investment, both domestic and foreign, plays a key role in enhancing the capacity to cope with competitive pressures. In 2001, gross fixed capital formation in constant prices grew by 11.6% compared to 2000. The growth of investments was promoted by several factors: stable macroeconomic environment, reduction of interest rates and successful development of the banking sector, increase of general economic activity and formation of positive future expectations. Non-financial investment increased by 8% in 2001 as compared to 2000. More than half (57%) of the non-financial investment went to the private sector. The largest shares of total investments went to industry (27%), followed by transport, storage and communications (26%, an increase of 24% as compared to 2000).

In spite of the deterioration of the world economic environment in 2001, the interest of foreign investors to invest in Latvia remained high. **Foreign direct investments** (FDI) stock in 2001 went up by 10.8% as compared to 2000. The FDI inflow amounted to 2.6% of GDP in 2001. More than half of the FDI in Latvia comes from EU countries. In 2001, the largest part of FDI went to trade (39.2%), real estate transactions (31.3%) and manufacturing (21.0%). By the end of 2001, wholesales and retail trade had the largest part in FDI stock (22.2%), followed by financial intermediation (17.4%) and manufacture (17.0%). The international credit agencies (Standard & Poors, Moody's, Fitch IBCA) have given Latvia comparatively high credit ratings, reflecting political stability, successful reforms and low level of government debt.

The **financial sector** has been continuously developing, thus becoming an efficiently functioning sector of the national economy. The current financial system corresponds to the requirements of a modern and developed economy, providing the necessary financial instruments.

The banking system in Latvia is well capitalized, profitable and liquid. The present supervisory and regulatory framework is robust. At present, there are 22 licensed banks and one branch of a foreign bank. The Latvian Government holds shares in only 2 banks. The profit of the banks has increased by 21.7% in 2001 as compared to 2000. At the end of 2001 the capital adequacy ratio of the banking sector was 14.2% - well above the required minimum of 10%.

Soundness of the banking sector, stability of the national currency, increasing incomes and a further strengthening of the real sector of the national economy allowed the banking sector to attract more deposits from domestic enterprises and private persons (growth by 24.5%). Loans rose by 49.8%, whereas the banking system's net claims on the central government declined. A more rapid increase in loans, in particular long-term loans, was fostered by growing economic

activity and favourable lending rates. The amount of non-performing loans decreased and their share in the total loans granted to non-banks dropped from 4.5% to 2.8%.

Tight competition in the banking sector results in a broadening range of services that banks offer to their customers and increasing cost efficiency. Credit rates are falling as a consequence of diminishing credit risk and the improving quality of collateral, the introduction of new banking products, and an increase in purchasing power. The spread between lending and deposit rates narrowed, which indicated an increasing efficiency of banks.

The increase in long-term loans (up by 55% in 2001 as compared to 2000) was driven by mortgage loans, which grew 2.1 times. At the end of 2001, the largest stock of loans was in trade (23.1% of loans to domestic enterprises), manufacturing (17.8%) and financial intermediation (17.0%). Granted loans increased substantially in all major sectors of the national economy: trade (by 31.5%), construction (2.3 times), manufacturing (by 17.8%), other services (by 29.5%), and hotels and restaurants (2.7 times).

At the end of 2001, the Latvian securities market comprised the Riga Stock Exchange, the Latvian Central Depository, 8 brokerage firms and 19 banks (intermediary companies) providing brokerage services, as well as four registered investment companies managing four investment funds (three open-end funds and one closed-end fund). In 2001, the total turnover of the Riga Stock Exchange amounted to LVL 531.4 million. In 2001, the capitalisation of the stock market increased by 21.8%. The Dow Jones Riga Stock Exchange index (in US dollars) rose by 38.38% and amounted to 172.46 points at the end of 2001.

In 2001, assets of investment funds grew by 50.4% as compared to 2000. Significant progress in pension reform was achieved in 2001. On 1 July 2001, contributions to the second, fully funded, pillar began. This pillar is expected to promote savings and capital market development. In 2001, there were four private pension funds in Latvia.

During the reporting period, consolidation of the insurance sector continued. At the end of 2001, there were 21 insurance companies in Latvia - 6 life insurance and 15 non-life insurance. Insurance companies extended their range of services offered to customers and 126 new insurance products (policies) were registered. In 2001, the amount of gross premiums written by insurance companies increased by 1.4% as compared to 2000, while the amount of gross claims increased by 9.8%. In 2001, the share of insurance premiums in GDP amounted to 2.0%.

The year 2001 was successful for the development of private pension funds. The number of private pension plan participants increased 2.5 times and amounted to 1.7% of the average number of employed persons in Latvia; the amount of pension plan assets increased twofold; the policy of investment of pension plan assets continued to be rather conservative, retaining maximum restrictions on risks.

		1995	1996	1997	1998	1999	2000	2001
Real GDP growth	<i>per cent</i>	-0.8	3.3	8.6	3.9	1.1	6.8	7.6
Inflation rate								
Annual average	<i>per cent</i>	25.0	17.6	8.4	4.7	2.4	2.6	2.5
December-on- December	<i>per cent</i>	23.1	13.1	7.0	2.8	3.2	1.8	3.2
Unemployment rate								
ILO definition	<i>per cent</i>	18.1	19.4	14.8	14.0	13.5	13.2	13.1
Registered	<i>per cent</i>	6.6	7.2	7.0	9.2	9.1	7.8	7.7
General government budget balance	<i>per cent of GDP</i>	-3.4	-1.4	0.2	-0.9	-4.2	-2.8	-1.8
Current account balance	<i>per cent of GDP</i>	-0.4	-5.5	-6.1	-10.6	-9.7	-6.9	-10.1
	<i>billion ECU</i>	0.0	-0.2	-0.3	-0.6	-0.6*	-0.5**	-0.9***
Government external debt								
Debt/ export ratio	<i>per cent</i>	19.6	15.8	13.1	12.6	21.0	17.5	21.1
Gross foreign debt	<i>billion ECU</i>	0.33	0.34	0.33	0.35	0.6*	0.6**	0.8***
Foreign direct investment	<i>per cent of GDP</i>	5.5	7.4	9.2	4.9	5.0	5.6	2.6
Net inflow according to balance of payment data	<i>million ECU</i>	194.9	315.6	453.0	268.4	328.4*	425.1**	216.7***

* EUR=LVL 0.588 (01.01.2000)

** EUR=LVL 0.570 (01.01.2001)

*** EUR=LVL 0.561 (01.01.2002)

2.2. The Existence of a Functioning Market Economy

The aim of Latvia to become an integral part of the economic and security structures of Western Europe has created a stable consensus for market-oriented reforms in the country. The Government follows the principle of continuity and succession in economic policy-making which is consequently reflected in the Medium Term Economic Strategy, Joint Assessment and Pre-accession Economic Programme (PEP). The PEP re-iterates the medium term economic priorities of Latvia in the context of EU accession, dealing also with the most important structural reform areas related to the strengthening of the Latvian economy and adjusting to Common Market principles. The successive implementation of the policies and structural reforms discussed in the PEP will ensure the fulfilment of the Copenhagen criteria by promoting real convergence and ensuring that the Latvian economy is able to cope with the competitive pressure in the EU internal market.

Market forces determine the prices of the majority of goods and services. Only prices for the services of the natural monopolies are regulated.

The trade regime in Latvia is very liberal and fully complies with WTO standards. It is an essential part of the integration process into the European Union. During the last four years, the simple average MFN tariff has been reduced from 5.60% to 4.56%. Moreover, the MFN rate of 0.5% applied to some industrial goods was eliminated on 1 January 2002. The average customs tariff rate for industrial goods has declined to 3.07% (basic rate) and to 2.21% (MFN rate), with customs tariffs reduced to zero or a 1% rate on many goods. Latvia will ensure that its trade

legislation will continue to be in line with EU requirements and follow WTO rules. In general, tariffs will be kept at or below EU levels. Furthermore, Latvia will neither increase any *ad valorem* tariffs nor introduce any new specific tariffs or export subsidies.

The regime for capital movements in Latvia can be compared to the world's most liberal regimes. Latvia has succeeded in attracting foreign direct investment (FDI) and FDI per capita makes one of the highest figures in the region.

The Government is pursuing a sound fiscal policy. The "size" (government expenditure as % of GDP) of the Government has been gradually declining from 44,5% in 1999 to 38,1% in 2001, reflecting the diminishing role the state exerts on economic processes.

As far as tax policy is concerned, the Government is in favour of a fair, neutral and easy to administrate tax system that would guarantee sustainable budget revenue, facilitate production and boost saving. The emphasis is being put on lowering the tax burden in general and shifting it from production to consumption. The corporate income tax rate is being reduced from 25% to 15% in 2002-2004, while the social insurance contributions rate will be reduced by 2 percentage points in 2003. Finally, starting from 2004 the real estate tax rate will be cut from 1.5% to 1.0%.

Thanks to a successful privatisation record, a strong layer of private entrepreneurs who drive economic development has emerged in Latvia. In 2001 the private sector accounted for 69% of GDP (68% in 2000), and 72% of the employed persons were employed in the private sector (71% in 2000). In sectors of the economy such as manufacturing, agriculture, fishing, construction, trade, hotels and restaurants the share of private companies in gross value added exceeded 90%.

The market entry and exit mechanisms are functioning smoothly. In 2001, 7402 new enterprises were registered, whereas 2463 were liquidated. The total number of enterprises was 127 329 at the end of 2001. In January 2002 a new "Commercial Law" entered into force. The new law brings company law in line with EU requirements and further simplifies business registration.

Registration of land properties in the Cadastral register is completed and covers 100% of the total area of Latvia. In the year 2001 registration of apartments increased by 41%. At present, all 28 Landbook Divisions have been completely computerised. As from July 2001, the State Unified Computerised Landbook started to operate in Latvia.

Financial sector developments continue to be encouraging, with key indicators improving. This provides a solid financial support to the economy. All banks fully comply with the capital adequacy ratio, the share of non-performing loans has been constantly decreasing, profitability has been growing. Moreover, the banking sector shows resilience to different shocks. The present supervisory and regulatory framework is robust and complies with relevant international standards. Insurance companies are profitable and insurance premiums as percentage of GDP are the highest among the Baltic States.

The Latvian authorities have made considerable progress in establishing the institutions of a market economy. The State Aid Surveillance Commission effectively performs its duties. The supervisory capacity and transparency in the field of public procurement were enhanced by establishment of the Procurement Supervision Bureau that is operational from 1 January 2002. A unified supervisor of the whole financial sector - the Financial and Capital Market Commission (FCMC) - has been effectively performing its functions since 1 July 2001. Three months later the Public Utilities Commission (PUC) started its activities. The PUC has taken over regulatory functions previously performed by separate energy and telecommunications councils and by the Ministry of Transport. The Commission is working on a unified tariff mechanism for public utilities. It also issues licenses for utility providers, works to ensure service quality, is developing a regime for providing non-competitive services, and determines rules and mechanisms that promote competition. The PUC's strategic goals are to protect consumer interests and to promote

both competition and investment-driven development. Both the FCMC and the PUC are politically and financially independent institutions.

2.3. The Capacity to Cope with Competitive Pressure and Market Forces

A detailed plan for meeting the criterion is incorporated in the updated National Programme for Adoption of the Acquis, Pre-accession Economic Programme and specific sector programmes. 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. Existence of a fully functioning market economy in Latvia contributes significantly towards improvement of Latvia's prospects for developing the capacity to cope with competitive pressures within the single market.

Sound policies have resulted in increasing macroeconomic stability. The Government is pursuing strict fiscal policy restricting the fiscal deficit at the level that does not undermine the macroeconomic stability. Monetary policy pursued by the Bank of Latvia supported price stability. Appropriately tight macroeconomic policies and implementation of key structural reforms have sustained an environment more conducive to investment-led and well-balanced growth, with low inflation.

In Latvia, investment, both foreign and domestic, continues to be the factors of vital importance to increase competitiveness and raise productivity thus playing key role in enhancing the capacity to cope with competitive pressure. In 2001, non-financial investment increased by 8% as compared to 2000. The largest share of non-financial investments went to machinery and equipment (44%) As far as FDI is concerned, Latvia has managed to attract significant amounts thereof; during 2001 the stock of FDI further increased by 10.8%. Stimulation towards higher investment should also arise from a 40 % tax reduction given to companies who invest more than LVL 10 million over a period of three years.

The promotion of infrastructure investment is an important priority. The Government has been gradually increasing budgeting for investment spending, and a high level of government spending on infrastructure is expected in the medium term. After a slight decline in 2000, the share of public investment in GDP picked up in 2001. State investment priorities are realised through the *Public Investment Programme*. State budget ensures co-financing programmes financed through EU funds.

The educational achievement is relatively high in Latvia and labour force is well educated. In 2001, 20% of the labour force had higher education, 62% had secondary education, and only 16% - basic education. The budget financing for education has further increased in 2002, reflecting one of the main priorities of the Government. To address the issue of structural unemployment, Latvian State Employment Service is organising training, courses and temporary public works for unemployed persons to promote employment. More than two thirds of those who received special training have found employment afterwards.

Latvia competes successfully in the international markets including that of the EU. Despite lower demand in the EU countries, 61.2% of Latvia's exports were directed to the EU countries in 2001. On the whole, the growth of exports of metal products, machinery, equipment and transport vehicles formed 41.7% of total export growth to the European Union, thus suggesting a notable shift towards a higher share of high value added products in the structure of exports. The most important export partners in 2001 were Germany, United Kingdom and Sweden. Modest wage increases; high profits and enhanced productivity should ensure continued competitiveness. Latvian exporters have previously showed resilience in the face of tough economic conditions. The share of capital goods (machinery, equipment and transport vehicles) in total imports has grown by 3.4 percentage points in comparison with 2000 and amounted to 42.1% allowing to

expect the leading to expectations of a rise in productivity and enhancement of the ability to withstand competitive pressures in the future.

Though the level of financial intermediation in the economy still lags behind that of the Western economies, the pace of convergence has been promising. The volume of deposits is growing. The ratio of loans to the GDP increased by 9.4 percentage points in 2001, thus reaching 34.5%. To meet the competitive challenge, banks broaden the range of services they offer to their customers and increase cost efficiency. The securities market is showing positive development tendencies. Investment companies have been gradually expanding their activities. The insurance market has been developing harmoniously. The system of mortgage crediting has been rapidly developing. In 2001, mortgage lending grew further by 112.1% and consequently the share of mortgage loans in the loan portfolio of banks increased from 10.9% at the beginning of 2001 to 15.2% at the end of 2001. After creation of a single Baltic securities trading and listing provision and a Baltic list which consists of stocks of the Latvian, Lithuanian and Estonian blue-chip companies, the Riga Stock Exchange has been exploring further integration plans.

C. Ability to Assume the Obligations of the Membership

The Chapters of the *Acquis*

1. *Free Movement of Goods*

All the framework legislation and infrastructure in the area of free movement of goods is in line with the *acquis*. Implementing institutions, in particular in accreditation, standardisation, metrology and market surveillance are established and functioning. Further efforts have been undertaken during the last year to strengthen the administrative capacity of the implementing institutions. During the last year new sectoral legislation has been adopted in the areas of aerosol dispensers, radio terminal equipment, medical devices and medical goods, foodstuffs and food safety, cosmetics, pharmaceuticals, cultural goods.

In the area of **horizontal and procedural measures**, the legal framework for conformity assessment, standardisation and market surveillance has been in place for several years.

Conformity assessment infrastructure is well established and consists of public and private conformity assessment bodies, testing and calibration laboratories, and certification and inspection bodies. By June 2002, the Latvian National Accreditation Bureau (LATAK) has accredited 136 testing and 10 calibration laboratories, 11 personnel certification bodies, 4 products certification bodies, one quality systems certification body, 7 inspection bodies and assessed competence of one inspection body and two products certification bodies.

The LATAK is a member of the European Co-operation for Accreditation (EA) since June 1999. According to the EA evaluation plan, the Latvian National Accreditation system was evaluated in August 2001. The follow-up visit will take place in August 2002. The aim of the evaluation visits is signing of the Mutual Recognition Agreements between the LATAK and EA members. It is expected that the Mutual Recognition Agreements will be signed by the end of 2002.

Since July 2001, 12 employees of the LATAK have participated in 19 training courses and seminars on conformity assessment, metrology, ISO 9000, ISO 14000 and ISO 17025 standards and EN 45000 standards series, accreditation procedures. The training was organised by the EA, European Commission – Joint Research Centre Institute for Reference Materials and Measurements, Federal Institute for Materials Research and Testing, LATAK, Latvian National Metrology Centre, Building Department of the Ministry of Environmental Protection and Regional Development and Ministry of Transport.

The national **standardisation system** has been further strengthened according to the “*Standardisation Development Programme*”. The goal of the programme is to implement a united standardisation policy, which is harmonised with the priorities of the national economy and the requirements of the EU. The non-profit state limited liability company “*Latvia's Standard*” (LVS) became the national associate member of the International Electrotechnical Commission (IEC) on 1 January 2002 and national affiliate member of the European Committee for Electrotechnical Standardisation (CENELEC) on 1 March 2002.

By 1 June 2002 the LVS has adopted 7597 standards, including 6934 European standards. Latvia has transposed 293 CENELEC standards, representing 6,5 % of the total number of CENELEC standards, 6457 CEN standards, representing 86 % of the total number, 184 ETSI standards, representing 10 % of the total number. In the year 2002 approximately 3000 CENELEC and CEN standards, and 110 ETSI standards will be adopted. This will allow the LVS to become a full member of CEN and CENELEC.

Administrative capacity of the LVS and related structures has been strengthened in the framework of the PHARE Twinning project “*Internal Market Capacity Building and*

Enforcement”, which was completed in July 2001. As the result of the project, a quality management system of the LVS has been elaborated, employees and technical committee experts trained and information systems improved.

In December 2001, 6 employees of the LVS were trained on standardisation issues in the framework of the project “*Development of Voluntary Standardisation in the Baltic States*” supported by the Norwegian Government. The training comprised areas such as marketing of standards and standardisation and work in the international standardisation community.

24 employees participated in the seminar on standardisation activities in the sphere of information technologies, organised jointly by the CEN-ISSS (CEN-Information Society Standardisation System) and the LVS.

21 experts of several interested Technical Committees and staff members of the LVS participated in the seminar “*On Strengthening of the Conformity Assessment System in the Construction Sector*” (Directive 89/106), organised by the Ministry of Environmental Protection and Regional Development.

The Latvian National Metrology Centre (LNMC) is in charge of the implementation of **metrology** policy in Latvia. In 2002, LVL 375 000 have been allocated from the state budget for the LNMC. An equivalent budgetary allocation is planned for the year 2003. To strengthen the administrative capacity of the LNMC, several training courses have been carried out to train the staff involved on mass measurements, geometrical measurements, electrical measurements, temperature measurements, acoustics and vibration measurements and on the control of pre-packages. The employees of the regional branches of LNMC have been trained on quality assurance matters. The Geometrical and Motion Parameter Measurements Laboratory and Electrical Measurements Laboratory of the LNMC were accredited by United Kingdom Accreditation Service to undertake calibrations on a certain scope in the year 2002. The number of employees of the State Metrological Inspection increased by two.

Strengthening of the **market surveillance system** continued last year. The Market Surveillance Council, established in December 2000, contributed to the promotion of a uniform approach and co-operation between the market surveillance authorities and elimination of duplication of functions. In order to strengthen administrative capacity of the Consumer Rights Protection Centre, the Division for surveillance of advertising dealing with misleading and comparative advertising issues was set up. In 2002, the Consumer Rights Protection Centre received extra funding to the amount of LVL 51 843. The staff of the Consumer Rights Protection Centre increased by 9 employees in 2001 and 8 employees will be hired in 2002. A legal Division for dealing with unfair contract terms will be established in 2002. Three regional offices of the Consumer Rights Protection Centre have been set up in Tukums, Jelgava and Daugavpils in 2002.

The staff of the State Labour Inspectorate (SLI), which is responsible for market surveillance in the field of hazardous equipment, has been trained on certification of dangerous equipment, registration of pressure vessels and equipment and on surveillance of personal protective equipment and machinery market. Further capacity building of SLI as a market surveillance body will take place within the Phare project “*Improvement of Working Environment in Private and Privatised Enterprises*”. Further strengthening of the market surveillance system will be carried out in the framework of the Phare 2002 project “*Market Surveillance in Non-food Area*” (see also chapter 23. *Consumers and Health Protection* and chapter 7. *Agriculture for food surveillance*).

The Protocol to the European Agreement on Conformity Assessment and Acceptance of Industrial Product (PECA) and four sector annexes to the Protocol were signed on 21 May 2002.

Regarding the screening of Latvia's legislation in the **non-harmonized area** to ensure compliance with Articles 28-30 of the EC Treaty, the Division of Regulation of Entrepreneurship

of the Ministry of Economy is authorised to co-ordinate the screening process. The main task of the employees of the Division is to monitor the compliance of Latvia's legislation with the principles of the free movement of goods and mutual recognition. There are three employees in the Division and an additional one will be recruited by July 2002. The line ministries are responsible for the elaboration of amendments to the legislation in order to achieve full compliance with Articles 28-30 of the EC Treaty. The Division of Regulation of Entrepreneurship has identified legislative acts which need to be abolished and/or amended. Meetings with ministries in charge of non-compliant legal acts took place in May 2002 in order to elaborate a detailed action plan for elimination of the non-compatible restrictions. The list of activities necessary for the elimination of the restrictions, as well as a timetable of the elimination will be submitted to the Government for approval by November 2002. Full approximation of Latvia's legislation with the *acquis* in this field will be reached upon the accession of Latvia to the EU.

As regards **safety checks on borders**, border inspection posts on external borders have been modernised. The Sanitary Border Inspection of the Food and Veterinary Service takes part in the Phare 2000 project "*Development of integrated Latvian border management and infrastructure*" and the Phare 2001 project "*Development of infrastructure of the Sanitary Border Inspection and customs control posts in ports and on railway*". Modernisation of sanitary border inspection posts is financed from the State Investment programme and will cover both veterinary and phytosanitary control of consignments (see also chapter 7. *Agriculture*).

As regards **sectoral legislation**, last year new legislation was adopted in the areas of aerosol dispensers, radio terminal equipment, medical devices and medical goods, foodstuffs and food safety, cosmetics, pharmaceuticals and cultural goods. The Regulation "*On Essential Requirements for Aerosol Dispensers and Labelling Procedure*" was adopted on 19 March 2002, implementing Directives 75/324/EEC and 94/1/EC. On 30 April 2002 the Government adopted the Regulation "*On Radio Terminal Equipment Conformity Assessment*", which implements Directive 1999/5/EC. On 3 July 2001 the Government approved the Regulation "*On Handling of Quick Frozen Foodstuffs*" implementing Directives 89/108, 92/1 and 92/2. Amendments to the Regulation "*On Labelling of Foodstuffs*" were approved by the Government on 14 August 2001, providing alignment with EU Regulations 2000/49 and 2000/50. The Regulation "*On Mandatory Safety Requirements for Foodstuffs, in which Production the Extraction Solvents are Used*" was adopted on 10 July 2001, transposing Directives 88/344/EEC, 92/115/EEC, 94/52/EC, 97/60/EC. The Regulation "*On Procedure of Exploitation and Technical Supervision of Medical Devices and Medical Goods*" was accepted on 19 February 2002, transposing Directives 90/385/EEC, 93/42/EEC and 98/79/EC.

In order to achieve full compliance with the *acquis* in the area of safety of equipment, amendments to the Regulation "*On Simple Pressure Vessels*" (implementing Directive 87/404/EC), amendments to the Regulation "*On the Safety of Machinery*" (Directive 98/37/EC), amendments to the Regulation "*On Evaluation of Conformity of Lifts, the Design and Production of their Safety Components and the Installation of Lifts*" (Directive 95/16/EC), amendments to the Regulation "*On Pressure Equipment and their Assemblies*" (Directive 97/23/EC) amendments to the Regulation "*On Personal Protective Equipment*" (Directive 89/686/EC) and amendments to the Regulation "*On Equipment and Protective Systems Intended for Use in Potentially Explosive Atmospheres*" (Directive 94/9/EC) have been elaborated and will be adopted by December 2002. By July 2002, the Regulation "*On Transportable Pressure Equipment*" will be adopted implementing Directive 1999/36/EC.

In the area of cosmetics, national standards on the methods of analysis necessary for checking the composition of cosmetic products were adopted on 20 December 2001. In the field of pharmaceuticals, Latvia joined the European Pharmacopoeia on 24 January 2002.

In the area of food safety, Regulation “*On Procedures for the Evaluation of Novel Foods and Mandatory Requirements of Classification, Labelling and Quality of Novel Foods*” (Directives 258/97/EEC, 1852/2001/EEC), amendments to the Regulation “*On Monitoring Council of Genetically Modified Organisms*” and amendments to the Regulation “*On Procedure for the Use and Distribution of Genetically Modified Organisms*” (Directive 2001/18/EEC) were adopted by the Committee of the Cabinet of Ministers on 22 April 2002.

On 15 November 2001 the Saeima adopted amendments to the law “*On Cultural Monuments Protection*” implementing Directive 93/7/EEC and Regulations 3911/92 and 752/93. Draft Regulations “*On Procedures of the Import and Export of Cultural Goods from and into the Republic of Latvia*” and “*On Procedures of the Return of Cultural Objects Unlawfully Removed from the Territory of Latvia or other States*” are elaborated and will be adopted by September 2002.

On 6 June 2002 the law “*On Weapons, Ammunition, Explosives and Pyrotechnical products*” was adopted by the Saeima. The law implements provisions of the Directives 91/477/EEC and 93/15/EEC. The law provides for classification of weapons, special tools and pyrotechnics, and determines the terms of production, manufacture, completion, repair, purchase and realisation, collection, export, import and transit, awarding, accounting, usage and application, target practices, storage, carrying, transportation, forwarding, withdrawal, confiscation, liquidation of the mentioned articles and mechanisms.

Renewal of existing **marketing authorisations for medicinal products for human use** to ensure compliance of products already marketed in Latvia with the requirements of the *acquis* is well advanced. Further progress has been made in strengthening the administrative capacity of the State Agency of Medicines and the State Pharmaceutical inspection, in particular concerning the upgrading of “old” dossiers and training of inspectors. Representatives from both authorities participated in the European Medicines Agency Medicines Safety Assessment working groups, CADREAC meetings, European Pharmacopeia Commission session, PERF II meetings, Pharmaceutical Inspection Convention scheme (PIC/s) seminars, European Pharmacovigilance association and Council Official Medicines control laboratory (OMCL) meetings.

Legislation on **public procurement** is largely in line with the *acquis*, including such issues as applicability of the laws, the time limits, the use of non-commercial and discriminatory award criteria. In order to implement EC directives 92/50/EEC, 93/36/EEC, 93/37/EEC, 89/665/EEC and 97/52/EC coordinating procedures for the award of public service, supply and works, and application of review procedures regarding public procurement, a new law “*On Procurement for Government or Municipal Needs*” came into force on 1 January 2002. The law provides for a clear definition of procuring entities and stipulates procurement procedures pursuant to the directives, as well as introduces new review procedures. It replaced the law “*On Government and Municipal Procurement*”.

To achieve full compliance with the *acquis* with respect to the public procurement legislation, including the conditions of choice of negotiated procedure, amendments to the law “*On Procurement for Government or Municipal Needs*” were adopted by the Parliament in the first reading on 14 February 2002. In order to implement the law “*On Procurement for Government or Municipal Needs*” regulations “*On Open Competition Procedure for Purchase or Lease of Goods*”, “*On Open or Restricted Competition Procedure for Provision of Services*” and “*On Open Competition Procedure for Performance of Construction Works*” were adopted by the Government on 27 December 2001.

A concept on “*Development of the Public Procurement System through Enhancing the Role of the IT Solutions*” was submitted to the Government in April 2002. The concept will introduce the system of conducting public procurement electronically, allowing a rise in the efficiency of utilisation of budget resources.

The Procurement Monitoring Bureau started working on 2 January 2002, as provided by the laws “*On Procurement for Government or Municipal Needs*” and “*On Works, Supplies, Lease and Services Procured by Entities Operating in the Public Utilities Sector*”. The necessary financial resources to the amount of LVL 469 078 have been allocated for the functioning of the Bureau.

Decisions of the Procurement Monitoring Bureau are binding for the procuring entities. It is entitled to consider complaints about compliance of the procurement procedure with legislation and to suspend awarding of contracts. The core staff of the former State and Municipal Procurement Monitoring Department of the Ministry of Finance works in the Procurement Monitoring Bureau, ensuring continuity. At present, the Bureau has 11 employees and there are plans to increase the number of employees to 18 in 2002 and to 23 in 2003. An Internal Personnel Training Strategy has been drafted. One employee of the Bureau was trained at the European Public Administration Institute in Maastricht in March 2002. Further training of the employees will take place under the framework of the Phare 2000 project “*Improvement of Latvia's Public Expenditure Management*”. Furthermore, purchase of IT facilities is planned under the framework of this project in the summer of 2002.

2. Free Movement of Persons

In the area of mutual recognition of professional qualifications, the alignment of the legislation with the General System Directives and the Sectoral Directives has been advanced. As regards the rights of residence and voting rights, the necessary normative acts have been submitted to the Government. The administrative capacity of institutions involved in the recognition of professional qualifications has been strengthened. Preparations for participation in the EURES network and the co-ordination of social security schemes have continued.

The legislation in the area of **mutual recognition of professional qualifications** is largely harmonised with the General System Directives by the adoption of the law “*On Regulated Professions and Recognition of Professional Qualifications*” on 20 June 2001. The Government on 28 May 2002 accepted the Order “*On Recognition Coordinator of Professional Qualification*”. The Regulation “*On Institutions Providing Information on Regulated Professions*” was accepted by the Committee of the Cabinet of Ministers on 3 June 2002. The Regulation “*On Institutions Issuing Certificates of Professional Qualifications in Regulated Professions*” have been submitted to the Government. The Regulations will be adopted by the end of June 2002. The Regulations set up the administrative structure for mutual recognition of professional qualifications.

In order to transpose the Sectoral Directives, the Government on 19 February 2002 adopted the Regulations “*Minimal Requirements of Educational Programmes for the Acquisition of Dentist, Pharmacist, Nurse and Midwife Professional Qualification*” and “*Minimal Requirements of Educational Programme for the Acquisition of the Veterinarian Professional Qualification*”. The Committee of the Cabinet of Ministers accepted the Regulation “*Minimal Requirements of Educational Programmes for the Acquisition of Architect Professional Qualification*” on 29 April 2002. The draft Regulation “*Minimal Requirements of Educational Programmes for the Acquisition of the Doctor Professional Qualification*” is prepared and will be adopted by the end of 2002.

The distinction between the academic and professional recognition is clearly recognised by Latvia. The differentiation is at least implicitly laid down by the provisions of the law “*On Education*”, the law “*On Higher Education Establishments*” and the law “*On Regulated Professions and Recognition of Professional Qualifications*”. The Academic Information Centre will exercise the functions of academic recognition as well as information and partly co-ordination functions of professional recognition. The Centre successfully operates in the

ENIC/NARIC diploma recognition networks. In 2001, 443 foreign education documents were assessed. To ensure academic recognition from the date of the accession, training is provided for the staff of the Centre.

The institutions involved in the mutual recognition of professional qualifications have been strengthened. The number of employees dealing with professional qualifications at the Ministry of Education and Science was increased by 1 starting from the year 2002. From the year 2003 the number of employees at the Academic Information Centre will be increased by 2.

In the framework of the cooperation project "Recognition of Professional Qualifications in Latvia According to the EU Requirements" with the Netherlands, 43 representatives from the Ministry of Welfare, the Ministry of Agriculture and the Ministry of Education and Science, the Academic Information Centre, professional associations and educational establishments were trained on professional qualification issues. 25 representatives from the ministries participated in the consultations with foreign experts. In the framework of the cooperation project "Recognition of Academic Qualifications in Latvia According to the EU Requirements" with Finland, 57 representatives from the institutions involved in the mutual recognition of professional qualifications have been trained.

In the area of the **right of residence**, both the draft law "*On Immigration*", and regulation on the procedure of entering and staying in the Republic of Latvia of citizens of the Member States of the EU and aliens who have been granted permanent residence permit in any of the Member States of the EU, will transpose Directives 90/364/EEC, 90/365/EEC, 93/96/EEC, 73/148/EEC and 64/221/EEC. The draft law was accepted by the Government on 28 May 2002. The law and the Regulations will be adopted by the end of 2002. The Saeima adopted the "*Person's Identification Documents Law*" on 23 May 2002. According to the law, identification cards, in conformity with international standards, will be issued to foreigners instead of the existing residence permits.

As concerns **voting rights**, the Committee of the Cabinet of Ministers accepted the law "*On Election of the European Parliament*" on 18 February 2002. The law transposes Directive 93/109/EEC. The law will be adopted by the end of 2002. The amendments to the municipal elections law providing for the exercise of the right to vote and to stand as a candidate in municipal elections by citizens of the EU residing in Latvia have been submitted to the Government and will be adopted by the end of 2002.

Preparation for the **free movement of workers** has been continued. In co-operation with the Danish Ministry of Labour the project "Implementation of EU Regulation 1612/68/EC on Free Movement of Workers in Latvia" will be launched in the second half of 2002. Within the project it is foreseen to train 8 Euroadvisers, as well as for the staff of the State Employment Service to work with the EURES network. Exchange of good practice is organised in co-operation with the Lithuanian Labour Exchange, focusing on IT systems and statistics, and with the Estonian Employment Service.

The strengthening of the State Employment Service (SES) has been continued to prepare for joining the EURES network. In order to improve information flow between the local offices of the SES, computerisation is being carried out within the framework of the State Investment Programme. During 2001, hardware has been supplied to the SES Board and regional offices; local networks were established in the Board and 13 local offices; financial management and accounting software has been introduced in the Board and Riga office of the SES and will be extended to cover the whole of the SES network in 2002. Development of a corporate computer network of the SES has been launched. The SES Internet home page (www.nvd.gov.lv) is being updated on a regular basis. 10 employees from the SES have improved their language skills in 2002.

The institutional structure for **the co-ordination of social security schemes** is established and the administrative capacity has also been strengthened. The institution responsible for the co-ordination of social security schemes is the Ministry of Welfare. A number of institutions are involved: the Ministry of Finance, the State Social Insurance Agency (mostly International Services Division); the State Compulsory Health Insurance Agency; the Ministry of Finance; the State Revenue Service and the State Employment Service. The network of specialists involved in social security co-ordination in Latvia is established. The inter-institutional working group for the co-ordination of social security schemes (established on 12 July 2001) meets regularly. By the end of 2002 the co-operation model for institutions involved in social security co-ordination and supervision of preparatory activities for EU co-ordination purposes will be elaborated.

Experts from the State Social Insurance Agency International Services Division provide regular lectures for the staff of local offices of the Agency concerning the main principles of Regulation 1408/71, so that cross-border cases are properly identified by social security administration after Latvia's accession to the EU. Language courses have been organised for the staff of the Ministry of Welfare (40 employees) and Agencies (12 employees).

During the process of implementation of the bilateral agreements, social security administration acquires the necessary experience to work with international social security issues.

Latvia has bilateral agreements on social security with Lithuania, Estonia, Ukraine and Finland. The agreement between Latvia and Sweden on medical care for temporary visitors relates to health care services. "Agreement on the Export and Reinforcement of Social Security Benefits" with the Netherlands is being negotiated. The "European Interim Agreement on Social Security Schemes Relating to Old Age, Invalidity and Survivors" and "European Interim Agreement on Social Security Other than Schemes for Old Age, Invalidity and Survivors" have been ratified and came into force on 1 September 2001.

3. Freedom to Provide Services

During the second half of 2001 and the beginning of 2002, the harmonisation of legislation in the field of financial and capital market with the European Community directives and recommendations has continued. A unified supervisor of the whole financial sector - the Financial and Capital Market Commission - has been effectively performing its functions since 1 July 2001.

The "*Commercial Law*" came into force on 1 January 2002, ensuring compliance with the EU core principles and providing for the freedom of establishment and the non-discrimination principle.

In the field of **financial services**, in the second half of 2001, the Financial and Capital Market Commission (FCMC) approved 82 regulations governing the activities of financial and capital market participants and the procedures for calculating the relevant indicators, as well as those for submitting reports. The Regulation "*On Drawing up Annual Accounts of Banks*" approved by the Council of the FCMC on 21 December 2001 has been prepared taking into account amendments made to International Accounting Standards (IAS) since 1996, as well as amendments 2001/65/EC to Directive 86/635/EEC. The Regulation provides for the procedures for classification of financial assets and financial liabilities according to their types and their initial recognition, as well as subsequent valuation in compliance with the IAS 39. Qualitative and quantitative information on risks inherent to banking activities, including market risk, shall be disclosed in the notes.

The law "*On the Investor Protection*", adopted by the Parliament in October 2001, is compliant with the requirements of Directive 97/9/EC and provides for the establishment of an investors compensation scheme. The maximum compensated amount is currently LVL 3 000

(approximately EUR 5300). It will be gradually increased to reach the minimum required by Directive 97/9/EC by January 2008, in line with the respective transition period provided for in the law.

The amendments to the law "*On Natural Person Deposit Guarantees*", adopted in October 2001, make deposits of legal entities eligible for compensation from the Deposit Guarantee Fund in the same amount as the deposits of natural persons. Thus, the requirements of Directive 94/19/EC on Deposit-Guarantee Schemes are implemented. Guaranteed compensation will reach the required minimum in January 2008, in line with the respective transition period provided for in the law.

Amendments to the law "*On Securities*", approved in November 2001, implemented the requirements of Directive 93/22/EEC. Amendments stipulate *inter alia* that henceforth any company intending to perform intermediary activities in the securities market has to have a licence, irrespective of whether the intermediary transacts in Latvian or foreign securities.

On 11 April 2002 amendments to the law "*On Credit Institutions*" were adopted by the Parliament, providing compliance with the requirements of Directive 95/26/EC. The amendments will improve the overall supervision of credit institutions and implement the single license principle. Currently, the legal framework for banking activities in all aspects complies with the EU Directives.

The FCMC is drafting amendments to the law "*On Insurance Companies and Their Supervision*". The amendments will allow a foreign insurance company to establish a branch in the Republic of Latvia, as well as implement the EU requirements concerning the single license principle and home country control principle. Amendments are scheduled for adoption in the Parliament by the end of 2002.

In order to fully implement the requirements of Directive 93/22/EEC, a new law "*On Securities*" has been drafted. The law will be adopted by the end of the year.

A new law "*On Compulsory Third Party Liability in Respect of Use of Motor Vehicles*" has been drafted that intends to implement all the requirements of the EU directives 72/166/EEC, 84/5/EEC, 91/232/EEC, 2000/26/EEC with respect to minimum coverage and structure of liability. The final adoption by the Parliament is scheduled for the end of the year.

The FCMC commenced its activities on 1 July 2001, thereby becoming the legal successor to the rights, obligations and liabilities of the Insurance Supervision Inspectorate, the Securities Market Commission, administration of the Deposits Guarantee Fund and of the Bank of Latvia in the field of credit institution supervision. The Commission regulates and supervises the financial and capital market and activities of its participants. The Council of the FCMC takes decisions independently. The degree of its independence is comparable to that of the Central Bank.

The staff of the FCMC includes experienced employees of the former supervisory institutions. The FCMC has three departments: the Supervision Department; the Legal and Licensing Department; and the Regulations and Statistics Department. At the end of 2001, the Commission had 95 employees. As the FCMC operates since 1 July 2001, its budget in 2001 was LVL 947 178, while the budget for 2002 is LVL 1 950 498. The FCMC is well equipped with workstations, servers and telecommunication devices.

The Strategy for Regulation and Supervision of the Financial and Capital Market was adopted by the Council of the FCMC on 6 July 2001.

In 2001, 25 examinations, including 22 full-scope and 3 targeted examinations of banking operations were conducted by staff of the FCMC. 7 examinations of banking operations were conducted in the first quarter of 2002. According to the law "*On Credit Institutions*", every bank has to be examined at least once a year.

In 2001, a total of 42 examinations, including 7 full-scope audits of activities, were carried out in insurance companies. In the first quarter of 2002, 7 examinations in insurance companies were carried out, including 1 full-scope and 6 targeted examinations. According to the law “*On Insurance Companies and its Supervision*” full-scope on-site examinations of insurance companies shall be carried out at least once every 3 years.

In 2001, 35 warnings for the violation of laws and regulations of securities market were applied to issuers. The license of one investment company was annulled. In 2001, one penalty for not making a mandatory share buy-out offer was imposed. In the first quarter of 2002, one warning was applied for the violation of law performing intermediary activity in the securities market; four warnings for the violation of laws and regulations of securities market were applied to issuers.

In co-operation with international financial organizations, the FCMC employees participated in workshops and upgraded their knowledge on the following topics: analysis and management of financial risks, prudential regulations, financial sector problems and analysis, financial and banking legislation, financial analysis of a company, core principles of supervision, general insurance, pensions, on-site inspections, IAS 39. The FCMC also participated in the Central European Mortgage Bonds Conference and the Danish-Latvian Mortgage Project.

In order to foster the efficiency of the financial and capital market and to promote its stability, the FCMC co-operated with several foreign financial supervisory authorities. In 2001, agreements on mutual exchange of information (Memorandum of Understanding) were signed with Belarus, Sweden, Iceland, Luxembourg and Poland. In 2002 MoUs were signed with Finland and Germany. In total, MoUs have been signed with 14 foreign supervisory authorities.

In the field of **information society**, on 18 December 2001 the Government accepted the Action Plan of the Concept “*On Electronic Commerce*” which consists of four task-groups – enhancement of infrastructure, establishment of basic rules, building trust, and maximization of benefits which are created by a knowledge based economy.

The European Commission Recommendations about e-commerce payment instruments and the relationship between service providers and their clients have been introduced. The draft of the “*Electronic Document Law*” was accepted in the first reading in the Parliament at the end of 2001 and is expected to come in force on 1 July 2002. To implement Directive 2000/31/EC on e-commerce in Latvia's legislation, the Ministry of Economy is drafting the Regulation with a view to submitting it to the Government by October 2002.

In the area of **data protection**, amendments to the law “*Personal Data Protection Law*” are being elaborated with a view to ensuring full implementation of Directive 95/46/EC and in particular compliance with the EU requirements on the degree of independence of the State Data Inspectorate. The amendments were adopted by the Parliament in the 2nd reading on 30 May 2002.

The operational capacity of the State Data Inspectorate is being strengthened. In 2002, the number of employees at the State Data Inspectorate has been increased from 10 to 17 persons. The following structural units have been set up: Registration Division, Legal Division, Control and Information System Security Division, Information Division (for the supervision of the implementation of the “*Information Publicity Law*”), and Administrative Division. The budget for the Inspectorate has doubled in 2002 as compared with 2001. Training on personal data protection is provided for lawyers, IT specialists, and inspectors. Practical seminars and consultations will be organised under the framework of the cooperation contract between Latvia and Sweden in 2002. The Phare 2002 project has been developed for further increasing of the operational capacity of the Inspectorate.

4. Free Movement of Capital

The legislation concerning free movement of capital is generally aligned with the *acquis*. Latvia has virtually completed its liberalisation process of capital movements.

In the area of liberalisation of investment policies, amendments to the law "*On Natural Person Deposit Guarantees*" abolishing the restrictions with regard to the cross-border investment policy of resources of the Deposit Guarantee Fund were adopted by the Parliament on 1 June 2001. In order to abolish the existing provisions, which limit investment options to the Latvian government bonds, amendments to the law "*On Insurance Companies and Their Supervision*" will be adopted by the end of 2002. Afterwards, investment policies for the management of the funds will be also determined by the Financial and Capital Market Commission based on prudential considerations.

With regard to the Fund for Protection of Interest of Persons Insured under Inland Motor Vehicle Owners' Compulsory Civil Liability Insurance and the Guarantee Fund for Inland Motor Vehicles Owners' Compulsory Civil Liability Insurance, investment conditions will be liberalised by 1 January 2003. The work schedule is closely linked to the adoption of a new law in the area (see also chapter 2.3.03. *Free Movement of Services*).

To liberalize the provisions on private pension fund and insurance company' investments abroad and bring them in compliance with the *acquis*, amendments to the law "*On Private Pension Funds*", as well as the law "*On Insurance Companies and Their Supervision*" have been prepared. Both amendments are scheduled for adoption in the Parliament by the end of 2002. The Council of the Financial and Capital Commission has approved the list of countries where assets covering technical provisions and own funds of insurance companies can be invested.

According to the transitional provisions of the law "*On State Funded Pensions*", private companies will be allowed to manage resources of the state funded pension schemes as of 1 January 2003. Therefore, the Council of the Financial and Capital Market Commission adopted Regulation "*On the Investment of State-funded Pension Scheme Assets*" on 18 April 2002, respecting provisions of the EC Treaty on capital movement.

Amendments to the law "*On Collective Investment Companies*" will bring the law into full conformity with the *acquis* by cancelling the restrictive provisions. The amendments will be adopted by the Parliament by the end of 2002.

To cancel the existing differentiation in imposition of income taxes on dividends received by residents and non-residents from EU member countries, amendments to the laws "*On Enterprise Income Tax*" and "*On Personal Income Tax*" will be elaborated by October 2002 and eventually adopted in the package of the "*State Budget Law*" for 2003.

The Bank of Latvia continued adoption of new legislation and fine-tuning of existing legislation. Amendments to the law "*On the Bank of Latvia*" aimed at assigning the function of payments system oversight as a legal responsibility of the Bank of Latvia entered into force on 1 January 2002. Pursuant to the amendments and Recommendation 97/489, the "*Recommendations for Transactions Effected by Means of Electronic Payment Instruments*" were approved by the Bank of Latvia Board of Governors on 13 September 2001. They prescribe general rights and duties of credit institutions and their customers when conducting transactions by means of electronic payment instruments. Additionally, the Board of Governors of the Bank of Latvia approved a Payment System Policy of the Bank of Latvia that has been elaborated in accordance with Article 105 of the Maastricht Treaty, ECB requirements, the *Core Principles for Systemically Important Payment Systems* accepted by the governors of the G-10 country Central Banks and international practice. The purpose of the document is to explain to the public the importance of the payment system for the national economy and risks associated with the payment system, as well as possibilities for reducing such risks.

On 11 April 2002, the Parliament adopted amendments to the law “*On Credit Institutions*” to fine-tune the requirements in respect to out-of-court settlement of disputes between customers and banks.

A new law “*On Settlement Finality in Payment and Security Settlement Systems*” was drafted and submitted to the Government in December 2001. Upon adoption of the law by the Parliament by 1 January 2003, full implementation of the EC Directive 98/26 will be ensured.

Currently, 8 persons at the Bank of Latvia are in charge of the payment systems oversight function. In 2001, the staff members of the Payment Systems Department of the Bank of Latvia participated in seminars and meetings with the European Commission (TAIEX), European Central Bank, Central Banks of Sweden, Finland, Norway, Denmark and Iceland.

With regard to **prevention of money laundering**, progress has been achieved in 2001 and in the beginning of 2002. On 23 November 2001, the Council of the Financial and Capital Market Commission approved the *Guidelines for the Formulation of Procedures for Identifying Clients and Unusual and Suspicious Financial Transactions*. The new Guidelines pertain not only to credit institutions but also to credit unions, brokerage firms, investment companies, insurers, depository, stock exchanges and private pension funds.

To prevent financing of terrorism, amendments to the law “*On Prevention of the Legalization of the Proceeds Derived from Criminal Activity*” were adopted by the Parliament in the 2nd reading in February 2002. To ensure further compliance with Directive 91/308/EEC and FATF recommendations, as well as to give the right to the Financial Intelligence Unit to freeze transactions, amendments to the law “*On Prevention of the Legalization of the Proceeds Derived from Criminal Activity*” have been elaborated and will be approved by the end of the year.

The administrative capacity of the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity (Financial Intelligence Unit (FIU)) is being further strengthened. Currently, the Office follows the 4-year action plan (1998-2002) and the development strategy for 2002-2006 is being prepared. Two of eight information exchange agreements have been signed during the reporting period - with Slovenia in 2001 and with Italy this year.

In order to raise awareness about combating money laundering, the FIU has made 16 publications through the mass media in 2001 and 11 publications in 2002. In addition, it organised 16 training courses for the employees of financial institutions and law enforcement officers last year and 6 courses in the beginning of 2002.

The number of disclosures received from financial institutions was 3303 in 2001 and 1781 in the first four months of 2002. Banks account for about 80% of all disclosures received. In 2001, suspicious transactions constituted 32% of all essential disclosures (17% in 2000). The number of materials forwarded for further investigation was 40 in 2000, 59 in 2001 and 25 in the first four months of 2002.

There are plans to assign additional budgetary resources to the Office in 2003 to increase the staff number by 6. New data protection software was launched in September 2001. In 2002, an additional LVL 20 000 were provided for the development of the IT system.

To increase operational capacity of the SRS Financial Police Department, in the beginning of 2002 a special division of 4 employees was established to deal with the investigation of money laundering cases. Moreover, in the Economic Police a group of 7 persons for the investigation of money laundering cases will be set up (two staff members are already employed in this group). The group will be fully operational by the end of 2002.

5. Company Law

In the area of company law, the “*Commercial Law*” entered in force in January 2002, ensuring alignment of the legislation with the *acquis*. With the entering into force of the law “*On Sworn Auditors*” the accounting and auditing legislation is in full compliance with the *acquis*. Work is continuing to ensure that legislation complies with the EU level of intellectual and industrial property rights protection. The administrative capacity of the Register of Enterprises to ensure the implementation of the “*Commercial Law*”, as well the capacity of enforcement bodies dealing with the intellectual property rights legislation were strengthened.

As concerns **company law**, the “*Commercial Law*” entered into force on 1 January 2002. The amendments to the “*Commercial Law*” providing for the protection of minority shareholders became effective on 15 March 2002. A number of regulations were adopted to ensure the implementation of the law. As of January 2002 new enterprises are established in accordance with the “*Commercial Law*”. Re-registration of the existing enterprises is foreseen within three years – by 31 December 2004.

The Register of Enterprises has improved its technical basis, extended its operations and recruited 30 new employees in 2002. It is foreseen that 5 more people dealing with the implementation of the “*Commercial Law*” will be employed by September 2002. In 2002, the financing granted from the State budget for the implementation of the “*Commercial Law*” is LVL 254 824 (the same is planned for 2003); for the improvement of technical basis LVL 149 612 (the same is planned in 2003), for extending the Register - LVL 149 612 (planned also in 2003).

In 2001, 7,402 enterprises were registered in the Register of Enterprises. By 4 June 2002, 1435 new enterprises were registered in the Commercial Register and 215 were re-registered.

In the years 2001 and 2002, the Register of Enterprises has actively participated in the explaining of the reform of the “*Commercial Law*”. Methodical and informative materials have been prepared. The information is also available on the web site at www.ur.gov.lv, as well at 8 regional departments of the Register. Public information campaigns were carried out both in Riga and the regions, including free seminars for businessmen and representatives of the mass media (approximately 30), as well as public seminars and discussions (5). In co-operation with the mass media, including regional ones, several series of articles were published to explain the meaning and substance of the “*Commercial Law*”.

With the entering into force of the law “*On Sworn Auditors*” in January 2002, which transposes the 8th Directive, the **accounting and auditing legislation** is in full compliance with the *acquis*. The law creates the legal basis for the professional operation of sworn auditors.

The Latvian Sworn Auditor Association is the authority responsible for approving of sworn auditors and commercial companies of sworn auditors, code of ethics, professional standards and sanctions, as well as supervision. The Ministry of Finance supervises the operation of the Association. To ensure the State supervision, the Ministry of Finance appointed 3 authorised representatives on 2 January 2002.

The work on the legal basis for the establishing of a co-ordinating institution for auditing standards has continued.

The legislation on **industrial property rights** largely corresponds to the existing level of the protection of industrial property in the EU. The new draft “*Industrial Design Law*”, aligned with Directive 98/71/EC, is being coordinated among ministries. The law will be adopted by the middle of 2003.

The administrative capacity of the Latvian Patents Office has been strengthened. In 2001, 26 employees were trained on the legislation and registration of trademarks, as well as on the

implementation of the system of Community trademark issues, while 4 employees were trained on invention protection.

In the year 2001, the Patent Office registered 7356 trademarks. 70 industrial designs patents and 323 patents were granted. During 2001, 7 appeals against the decisions of the Patent Office and 120 oppositions were reviewed in the Board of Appeals of the Patent Office. During the first five months of 2002, 2051 trademarks were registered. 26 industrial designs patents and 63 patents were granted. In January 2002, 1947 patents, 27965 trademark and 488 industrial design patents were in force.

In the field of **intellectual property rights** the Regulation “*On Distribution of Films*” and the Regulation “*On Determination of Amount, Collection, Division and Distribution of Blank Tape Levy for Reproduction of Audiovisual Works and Phonograms for Personal Needs*” came into force on 1 January 2002.

On 7 May 2002 the Government accepted amendments to the number of existing normative acts. The amendments to the “*Copyright Law*” foresee that the number of film and phonogram copies reproduced for personal use will be limited to a single copy. The amendments to the “*Criminal Law*” provide for a more severe liability for the infringements of intellectual and industrial property, as well as increased punitive sanctions. The amendments to “*Latvia's Administrative Offences Code*” introduce administrative liability for the acquisition for realisation, storage and concealment of counterfeited goods, as well as providing for the confiscation of the counterfeited and pirated goods. The Customs will be entitled to carry out sanctions against any person bringing pirated or counterfeited goods into the country. According to the amendments to the law “*On Customs Taxes (Tariffs)*” a natural person may bring into the country, without paying the customs duty, no more than 10 identical carriers containing copyright and neighbouring rights objects. Due to the amendments to the “*Regulations on Trade Arrangement in Markets, Fairs, Street Trade Places and Drives*”, the licence for copyright protected objects used publicly is requested.

By the end of 2002 the amendments to “*Latvia's Administrative Offences Code*” ensuring the legal protection of copyright and related rights in the information society will be adopted. The *Act on Mediation* in compliance with Article 11 of Directive 93/88/EEC, is under preparation. The Act will be adopted by the end of 2002.

The proposal for the establishment of the State Council of Intellectual Property Supervision and Coordination has been submitted to the Government. The Council will supervise implementation of the *Strategic Development Programme on Development and Protection of Intellectual Property (2001-2005)* and coordinate the drafting of a Strategy for the next period, as well as facilitate cooperation and exchange of information among different institutions. The Council will have a Secretariat, which, *inter alia*, will collect and analyse information on intellectual property issues, including information regarding the number and volume of seizures by police and customs, number of cases prosecuted and court cases (civil cases and criminal cases).

The administrative capacity of intellectual property rights legislation enforcement bodies has been strengthened. In the framework of the Twinning project “Integration into EU: Harmonization of Legislation” seminars were organised in 2001 and 2002 - an introductory seminar on general intellectual property rights (IPR) issues (copyright, neighbouring rights, trade marks, patents etc.) with 145 participants; 2 special seminars on customs duties regarding IPR protection with 70 participants; 3 seminars on IPR issues for police, prosecutors and judges with 163 participants; a special seminar for judges on criminal cases and civil cases regarding IPR protection with participation of 35 judges and 5 prosecutors from the General Prosecutor's Office; a seminar for 6 Customs officials; special intensified training for judges and prosecutors - in total 3 judges and 3 prosecutors; special training on pirated goods identification for 5 experts from the Expertise Centre in State Police. An advisory manual for Customs has been elaborated and an advisory manual for Police and Prosecutors is under preparation.

Regular training for customs officers takes place in cooperation with representatives of brand owners, public organisations and EU customs experts. Since September 2001 more than 60 customs officers have participated in the training.

As a result of reorganisation, the Audio, Video and Computer Piracy Combat Division was established (22 employees) in the Economic Police Bureau in March 2002.

Two additional staff positions have been allocated to the Intellectual property protection division of the SRS National Customs Board. One official in each customs control group will be nominated to specialise in dealing with the protection of intellectual property rights by the end of 2002. The development of the electronic database for protection of trademarks has started. The database will be developed by the end of 2002.

In 2001 there were 2 registered (in 2000 - 36) and 2 disclosed (in 2000 - 23) infringement cases of copyrights and neighbouring rights. In 2001 there were 50 registered (in 2000 - 420) and 35 disclosed (in 2000 - 211) illegal actions with copyright and neighbouring right objects.

During the raids that were carried out by the Economic Police Bureau in 2001, 2818 administrative protocols (in 2000 - 101) were drawn up. The following seizures were made - 33 339 audio CDs (in 2000 - only 13 468), 6 943 software CDs (in 2000 - 2799), 923 video CD, 275 DVDs (in 2000 - 209).

In 2001 the Film Register of National Cinematography Centre of Latvia made expertise on 7809 films (VHS - 6000, CD/DVD - 1809) and 3501 films were confiscated by decision of the State Revenue Service. By 20 April 2002, expertise was made on 4743 films (VHS - 4264, CD/DVD - 479).

6. Competition Policy

In the areas of **anti-trust** and state aid, the process of legislative alignment is well advanced. Implementing institutions - the Competition Council and State Aid Surveillance Commission have already been functioning successfully for several years. The administrative capacity of both institutions has been permanently strengthened, thus ensuring effective enforcement of legislation.

In the area of **anti-trust**, a new "*Competition Law*" was adopted by the Saeima on 4 October 2001 to achieve full compliance with the Community *acquis* concerning the definition of dominant position and merger control. The new "*Competition Law*" entered into force on 1 January 2002. Secondary legislation necessary for the implementation of the law will be elaborated by July 2002. Adoption of Regulations of the Cabinet of Ministers on procedure of examination of the competition law violations, on procedure of finding validity of agreements between market participants, and on procedure of submitting and examination the merger notification of market participants is foreseen by the end of 2002.

New block exemptions for certain categories of restrictive agreements will be introduced by the end of 2002. Adoption of block exemption regulations for transportation service enterprises providing sea cargo services (Regulations 4056/86 and 823/2000), transportation service enterprises providing domestic railway transport services and domestic cargo transport services (Regulation 1017/68), certain horizontal (Regulations 2658/2000 and 2659/2000) and vertical agreements (Regulation 2790/99), certain insurance agreements (Regulation 3932/92), motor vehicle distribution and servicing agreements (Regulation 1475/95) and for certain patent and know-how licence agreements (Regulation 240/96) is being planned.

In the past year the Competition Council carried out analyses of those sectors which potentially and on the greatest scale could distort competition. Particular attention was paid to the market

analyses of high concentration markets and markets with predictable consolidation (telecommunications, energy supply, transportation, sugar market).

The Competition Council (established in 1998, 45 employees) is functioning with sufficient resources. The state budget assignments for the Competition Council increased by 4% in the year 2002. A further increase of budgetary resources to the amount of LVL 146 257 is planned for the year 2003.

During 2001, the Competition Council investigated 81 cases (71 in 2000) of possible violation of the "*Competition Law*" and the "*Advertising Law*". Most of the cases were related to abuse of dominant position (21) and unfair competition (31). There were 17 prohibited agreements cases, 4 cases on merger of undertakings and 8 cases on violation of the "*Advertising Law*". As at April 2002, 52 cases are being investigated (22 of them started before 2002). In this year investigation into 23 cases has been finished (two cases on abuse of dominant position, two cases on prohibited agreements, 12 cases on unfair competition, four on violation of the "*Advertising Law*").

With the entering into force of the new "*Competition Law*" on 1 January 2002 the Competition Council has powers to apply more severe sanctions. The law determines not only the minimal but also maximal amounts of fines, as well as levying of fines on an uncontested base.

Methodological work has been started to create a system of possible prohibited agreements identification in the state and local authority procurement tenders. The system will be elaborated by mid 2003.

Due to the growing complexity of the cases under investigation, the administrative capacity of the Competition Council has been strengthened. A seminar on prohibited agreements was held in the Competition Council on 5 October 2001 with participation of Swedish competition experts. 10 employees of the Competition Council participated in a seminar organized by the OECD on merger control in October 2001 in Tallinn. Employees of the Competition Council participated in the seminar "*Preparing for Membership of the European Union: Competition*" in December 2001 in London and in "*The Global Forum on Competition*" in February 2002 in Paris. Three participants from the Competition Council attended exchange of experience of competition authorities on application of competition legislation and case studies in March 2002 in Vienna and in joint training sessions on competition policy provided by TAIEX in April in Brussels. Two employees of the Competition Council participated in a course on EU Competition Policy in April-May in Dublin and Brussels.

During the year 2001 the Council's staff members participated in different competence-improvement courses in the State Administration School of Latvia (73 course days in total).

In the area of **state aid** the State Aid Surveillance Commission takes decisions both on the basis of the national rules and EU rules, always applying the strictest ones. As the current law "*On Control of the State and Local Aid to Entrepreneurial Activities*" is in force since the middle of 1997 and needs to be adjusted to the latest developments in the *acquis*, a new "*State Aid Control Law*" has been drafted. Most of the legal norms currently being in force are maintained in the new law. The draft law incorporates EU legal norms on aid for regional development, environmental protection, *de minimis* aid, aid for company rescue and restructuring as well as stricter rules on the transparency of financial relations between public institutions and public undertakings. The new "*State Aid Control Law*" will be adopted by the end of 2002.

A new law "*On Application of Taxes in Special Economic Zones and Free Ports*", together with respective amendments to the original SEZ laws and to the law "*On Control of the State and Local Government Aid to Entrepreneurial Activity*", were adopted (on 27 July 2001 and 13 June 2001, respectively) to ensure full compliance of the special economic zones and free ports aid schemes with the EU Guidelines on National Regional aid, Multisectoral Framework on regional

aid for large investment projects, as well as with all Community rules on aids to sensitive sectors. On 7 May 2002, the Government approved the draft law "*Amendments to the Law "On Application of Taxes in Special Economic Zones and Free Ports"*". The amendments establish the deadline of the aid programme concerning application of direct tax relief in the Riga Free Port and Ventspils Free Port, differentiate the admissible aid intensity by the size of the enterprise, provide for replacement of the intensity for tax relief calculation provided in the law, by a reference to the aid intensity established in the regional aid map of Latvia, after coming into force of the decision of the Association Committee, and provide for ensuring a fullfledged control of the admissible maximum amount of aid in cases when the zone company or free port company wishes to receive aid in the framework of another investment aid programme.

The Annual report of Latvia on State aid in manufacturing and certain others sectors for 2000 was presented to the European Commission's DG Competition in November 2001. The European Commission assessed the prepared report, which follows the methodology and presentation of the Commission's survey on State aid in the European Union, thereby enabling a meaningful comparison between the State aid levels in the EU and Latvia. Consequently, it fulfils the transparency requirement of Article 64 of the Europe Agreement between Latvia and the EU.

Between January 2001 and April 2002 the State Aid Surveillance Commission took 18 decisions including 3 decisions modifying previously adopted decisions.

Three of the Commission's decisions are taken on aid schemes, which foresees aid to SME's. One of the Commission's approved aid schemes is directed to increasing the level of SME's crediting, especially in cases where commercial banks are not interested in financing SME's because of insufficient guarantee or credit history, as well as due to the comparatively high costs of crediting SME's. Two another aid schemes intend to grant aid for company participation in international fairs and exhibitions, as well as for on-off market research in the form of a consultancy service.

Most *ad hoc* cases decided by the State Aid Surveillance Commission are linked to tax debt capitalization and tax debt write-off that originated before privatisation. Companies which approved for state aid were active in various manufacturing sectors such as pharmaceutical and wood processing, manufacture of electrical tools, musical instruments.

In the year 2001, the Commission extended the initial period of implementation of the state aid project for recycling waste paper disposed in dumps. This extension did not involve additional state aid. State aid was granted for environmental protection objectives.

As from 1 January 2002, a new State Aid Control division with four approved positions, which, *inter alia*, performs the functions of the Secretariat of the State Aid Surveillance Commission, has been established within the Ministry of Finance. In addition to the two employees, which had been working with the state aid issues before, one employee was recruited in March 2002 and another one will be recruited by the middle of 2002.

During year 2001, 12 seminars and working meetings for members of the State aid Surveillance Commission, officials of public administration institutions, members of the Parliament were organised on different state aid subjects in the framework of a Twinning project financed by the Phare'98 programme.

In 2002, 4 short-term missions of German experts in Latvia are planned in the framework of bilateral technical assistance. Assistance will be provided in the form of seminars and practical consultations for the officials involved in the process of drafting of aid schemes and individual aid projects for the public officials involved in actual aid granting, *inter alia* officials involved in the decision making process, in order to rise awareness of a correct understanding and functioning of the state aid control system.

Lectures on state aid control for officials of public institutions started on 11 June 2002. Lectures are organised by the officials of the State Aid Surveillance Commission's secretariat.

7. Agriculture

In 2001, the share of agriculture in the total GDP constituted 4.1 %, including 1.5 % forestry and related services, which constitutes an increase by 6.8% comparing with 2000. Employment in agriculture (including forestry and hunting) accounted for 13.5% of total employment in 2001 (13.3% in 2000).

Latvia pursues a comparatively liberal and open agricultural market policy. Applied customs tariffs to imports of agricultural goods are the only market protection measure. The market policy in Latvia complies with WTO rules.

The total import value of agricultural products in 2001 was LVL 277.71 million, an increase of 15% since 2000; export volume constituted LVL 109.03 million, an increase of 69% since 2000. The trade balance in 2001 is negative – LVL 168.67 million.

Export value of agricultural products to the European Union in 2001 was LVL 25.03 million (23% of the total export of agricultural products), and the main export products were milk and milk products (including cheese, butter, milk powder), fish and crustaceans, alcoholic beverages, rapeseed and apple juice.

The import value of agricultural products from the EU in 2001 was LVL 122.08 million (44% of the total import of agricultural products) and the main import products were fruit and nuts, coffee, animal feed, poultry, animal and vegetable fats and oils, as well as alcoholic beverages, including wine.

Supporting measures for agricultural development in Latvia started in 1994 with the introduction of agricultural subsidy schemes. The subsidies are targeted at preparation of the sector for accession to the EU Common Agricultural Policy and at making the country self-sufficient in foodstuffs.

In accordance with Article 16 of the “*Agriculture Law*”, governmental support is provided in the form of subsidies, amounting to 3% of the annual basic budget expenditure. This support is gradually increasing from LVL 4.14 million in 1994 to LVL 24.14 million in 2002.

In 2001 Latvia significantly advanced with the preparations to integrate its agricultural sector into that of the European Union, especially in the veterinary field, rural development and preparation to introduce the mechanisms of the Common Agricultural Policy.

In order to set up a **Paying Agency** in Latvia, a working group for merging of the Rural Support Service (RSS) and the Agricultural Market Intervention Agency (AMIA) has been established. The Government and Saeima will adopt the necessary legislative amendments by 30 June 2002. The merging of both institutions will take place at the end of 2002.

To implement the **Integrated Administration and Control System** in Latvia, on 27 December 2001 the Government adopted the Regulation “*On Implementation of IACS*” defining the main elements of IACS implementation in Latvia: computerised database, Land Register, Animal Register and integrated control system. The Animal Register already exists in Latvia, but it needs to be updated to become a part of IACS. The computerised database will be set up on the basis of the existing Clients Register which is maintained by the RSS and will be fully included in IACS after its updating.

A working group has been established at the Ministry of Agriculture, which includes representatives of the Ministry of Agriculture, the RSS and the State Land Service, to prepare the main principles of setting up the Land Parcel Identification System (LPIS). The LPIS will be

based on ortho-photo maps, cadastre and other reference maps which will be used in the implementation stage to identify the territory in which the block is located and to define block boundaries more precisely. An agreement on the first phase-pilot project (testing period for drawing of blocks) for the setting up of LPIS was signed between the RSS and the State Land Service on 16 April 2002. The Rural Support Service has established 10 additional working places for the digitalisation of land parcel boundaries in two Regional Agricultural Departments and in the Aiviekste State Department of Land Reclamation Systems.

In order to prepare the Latvian administration for the implementation of IACS, the Twinning project between the Ministry of Agriculture of Latvia and the Dutch Ministry of Agriculture "Development of the Management Mechanisms of the Latvian Agriculture" will begin in the end of June 2002 and continue until December 2003.

As regards **trade mechanisms**, the Detailed Action Plan for the implementation of the Common Market Organisations has been prepared and presented to an inter-ministerial working group represented by the Ministry of Finance, the National Board of Customs and the Rural Support Service – the institutions which are going to administrate the trade mechanisms.

The administrative responsibility for trade mechanisms has been distributed among the above-mentioned institutions. The description of internal procedures concerning the administration of trade mechanisms will be completed by July 2003.

The Food and Veterinary Service of the Ministry of Agriculture and the Patent Office of the Ministry of Justice are the institutions responsible for the implementation of the **quality policy** as regards agricultural products. The Regulation "*On Indications of Geographical Origin and Special Certificates Issued for Agricultural Products*" will be elaborated by September 2002.

There are more than 200 farms in Latvia producing products of **organic farming**. The main sectors of organic farming are cereals, horticulture, dairy farming and apiculture. In 2001, the total certified area was 10 549 ha. The certification of farms is carried out by the public organization VIDES KVALITATE and supervised by the Food and Veterinary Service. The certification is based on the rules of organic agriculture, which are in compliance with the EC Regulation.

The Regulation "*On Circulation of Organic Agricultural Products and Certification*" has been elaborated and will be adopted in 2002, covering production, storage, processing, labelling and marketing procedures of organic agricultural products, as well as the certification procedure of those products. The Regulation "*On State supervising and control of Organic Agricultural Products*" will be elaborated in 2002 providing for State supervising and control of organic agricultural products, as well as the registration of persons involved in circulation of organic agricultural products.

The Regulation "*On Procedure for Setting Up, Maintenance and Operation of the **Farm Accountancy Data Network (FADN)***" implementing the EU Regulation 79/65 is at the stage of co-ordination and will be approved by August 2002. The Latvian State Institute of Agrarian Economics will be assigned as the Liaison Agency of the FADN and the Regional Committee of the Data Network will be set up whose responsibility will be the co-ordination and supervision of the FADN and communication with the European Commission.

In order to increase the competitiveness of farm holdings, land consolidation is envisaged under the Land re-parcelling measure of the SAPARD programme. The measure will encourage the elimination of fragmented holdings and adjustment of disadvantageous borders with a view to establishing compact land titles. The measure will be accredited by the beginning of 2003.

In order to implement the **Common Agricultural Policy** in Latvia, the Conception on necessary changes in the national legislation for the implementation of the EC Common Agricultural Policy has been elaborated. Basing on the above-mentioned Conception, a ministerial working

group is working on the draft law “*On Implementation of the CAP*” as well as other national legal acts. The law will be submitted to the Cabinet of Ministers by the end of 2002.

The law “*On Implementation of the CAP*” will regulate: (1) responsibility of institutions for the administration of rules prescribed in regulations; (2) administrative complaint procedures; (3) supervision and control; (4) sanctions in case the regulations are violated; (5) rights to obtain information; (6) confidentiality of the information, etc.

In 2002, a system of **area payments** based on the EC model was further developed, covering cereals, vegetables and oil seed. The Rural Support Service administrates this system.

The introduction of the area payments system for grain was started in 2000-2001 according to the EU model (Regulation 1251/99). Latvia already partly implements EU practices as regards market intervention in the cereals sector – the intervention has a public format, it is organised on an annual basis, the purchasing period of grains is fixed, and the minimal quality requirements are set. In 2002-2003, it is expected to increase the minimal amount of grains, subject to intervention, from 40 tonnes up to 60 tonnes to reach the EU standard (80 tonnes) in future. Harmonisation of the intervention periods is also planned in 2002-2003.

The Ministry of Agriculture grants its annual subsidies in order to improve the grain quality standards and to carry out the intervention. An increase in the number of certified laboratories to fix the content of protein and Zeleny index is planned, as at present 3 laboratories are available in Latvia. Since 2001 the SAPARD Programme is being used to modernize the branch.

In 2001 and 2002, Latvia carried out important steps towards the implementation of **milk and milk products CMO**. On 20 November 2001 the Regulation “*On Handling of Milk, Treated Milk and Milk-based Products*” was adopted, which came into force on 1 January 2002. The Regulation complies with Directive 92/46 and provides for compulsory requirements concerning hygiene, quality and veterinary standards on milk production, treatment, transportation and processing, as well as requirements for packaging of milk and milk-based products. The Regulation also provides for the Milk Producers` Register, which is a system of detailed accounting of milk delivered to dairy companies. The Register will serve as a basis for establishing and implementing the EU milk quota system.

Based on the Regulation, the Instruction of the Ministry of Agriculture of 8 March 2002 “*On Arrangements for Accounting and Exchange of Information on Milk Purchased for Treatment, Processing and Production of Milk-based Products*” was adopted. The Instruction sets out detailed arrangements for accounting and exchange of information in the Milk Producers` Register.

The draft of the Regulation “*On Intervention in the Latvian Milk Products Market*” has been finished. The Regulation complies with the provisions of EC Regulations 2771/99 and 214/2001 concerning the intervention buying-in of butter and skimmed milk powder.

The functions of the institutions involved in administration of CMO schemes - the Rural Support Service (including the merging with the Agricultural Market Intervention Agency), the State Breeding Information Data Processing Centre (SBIDPC), the Food and Veterinary Service, the Agricultural Market Promotion Centre and the National Customs Board - have been determined. The flowcharts for administration of different schemes have been set up. The guidebooks for administration of the CMO are under preparation.

In the **beef sector**, the Regulation “*On Labelling of Beef*” has been submitted for approval to the Government. The Regulation will comply with requirements of EC Regulation 1760/2000. The Ministry of Agriculture is currently drafting Regulations regarding carcass classification, price reporting and private storage for pig meat, beef and sheep. The Government has assigned financial support to beef producers as a slaughter premium for adult male bovine animals and also a suckler cow premium.

As regards the **sugar sector**, amendments to the “*Sugar Law*” were adopted on 28 February 2002 in line with the EU sugar quota system. On 21 February 2002 the Orders “*On Sugar Production Quota in 2002*” and “*On State Balance of Sugar Production and Consumption in 2002*” were adopted by the Government based on amendments to the “*Sugar Law*”. The Regulation “*On Market Intervention in the Sugar production Branch in 2000*” partially corresponds to the principles of the EU intervention scheme.

The following measures have been carried out in 2001 and 2002 for implementation of the CMO in the **fruit and vegetables sector**: (1) the functions of the institutions involved in administration of the CMO schemes – the Rural Support Service and the Agricultural Market Intervention Agency, the Food and Veterinary Service, the Agricultural Market Promotion Centre and the National Customs Board - have been determined; (2) the Regulation “*On the Control of the Fruit and Vegetables Marketing Standards*” and the Regulation “*On Fruit and Vegetables Producer Organizations*” are being elaborated and will be adopted in 2002.

As regards the implementation of the CMO in the **wine sector**, Latvia already has some parallel mechanisms such as administration of the wine import-export regime, State surveillance and control at establishments and administration of oenological practice and processes and requirements existing in the EU. The draft Regulation “*On Wine*”, “*On Sparkling Wine*” and “*On Methods of Analyses for Wines*” transpose the practice and process, wine description, designation and presentation laid down by the EU Regulation 1493/99.

The State Revenue Service of the Ministry of Finance will administrate the wine import/export regime; the Rural Support Service of the Ministry of Agriculture will explore current administrative functions, planning of finance and human resources, and staff training is ongoing; the Food and Veterinary Service of the Ministry of Agriculture performs administration and control, and supplementary information activities and staff training for 22 people on the technology of wine and sparkling wine production, use of disinfectant in an establishment and on identification of wine and sparkling wine origin are ongoing.

The Latvian **administration** follows the activities foreseen in the Detailed Action Plan for the implementation of Common Market Organisations in Latvia as a matter of priority. In order to facilitate the preparatory work on establishing the administration system of CAP management mechanisms in Latvia, in January 2002, three new structural units of the Rural Support Service became operational – the EU Direct Support Department, the EAGGF division within the Finance Department and the IACS division within the Information Department. In 2002, the number of staff in RSS has increased by 24% comparing with 2000, and respective budget appropriations have increased by 70% comparing with 2000, to satisfy the growing need for administrative capacity required for the management and implementation of different support schemes, including the SAPARD Programme.

Taking into account the variety and complexity of CAP mechanisms, the sector-by-sector estimations of necessary human resources prepared by the Ministry of Agriculture and the Rural Support Service were presented to the European Commission as a part of the detailed plans for the implementation of the CAP in Latvia. The necessary financial resources for 527 additional staff have been requested by the RSS in the State budget proposal for the year 2003.

Preparations of the staff of the Ministry of Agriculture and involved institutions for the implementation of the CAP were assisted by the Latvia-Sweden Phare Twinning project “*Integration into the EU: Law Approximation*”, which provided valuable expert assistance and training opportunities for the local staff by co-operation between the ministries and implementing agencies in Latvia and Sweden.

As a result of this Phare Twinning project the experts have made a detailed analysis of functioning of the EU Common Market Organisations and their implementation in Latvia. The staff has been thoroughly trained about the EU legislation. The provisional number of human

resources necessary for administration of different CMO schemes has been evaluated. Numerous working group meetings were held during the duration of the project, bringing together specialists of the Ministry of Agriculture, Rural Support Service, Agricultural Market Intervention Agency and other involved institutions. In accordance with the Twinning Covenant, training visits to the Swedish Board of Agriculture were successfully completed, resulting in 6 RSS officials being trained on the practical administration of the CAP mechanisms. In the concluding phase of the project two comprehensive seminars were organised in Latvia for all involved institutions on administration of CAP schemes linked to different CMOs.

In order to promote **rural development**, the SAPARD Programme for Agriculture and Rural Development in Latvia has been elaborated and its implementation started in December 2001. The State Programme of Agricultural Subsidies also essentially contributes to the further development and promotion of the rural economy. The great interest showed by potential applicants indicates that SAPARD is an important tool for developing Latvia's agriculture and rural areas.

The Rural Development Department of the Ministry of Agriculture has prepared the priorities of the Objective Area 3 "Improvement of Environment" of the SAPARD Programme for Agriculture and Rural Development in Latvia. The SAPARD Monitoring Committee will approve the priorities in the 3rd or 4th quarter of 2002.

Within the SAPARD Programme for Agriculture and Rural Development in Latvia, by 9 May 2002, 212 projects have been approved by the Rural Support Service with the total contracted amount approximately 7 MEUR, including: (1) Modernisation of agricultural machinery, equipment and construction of buildings - 125 projects (contracted amount MEUR 5.2); (2) afforestation of agricultural lands - 48 projects (contracted amount MEUR 0.5); (3) Development and diversification of economic activities providing for alternative income - 39 projects (contracted amount MEUR 1.3).

In 2002, elaboration of the Rural Development Plan will be started. The Plan will be implemented after Latvia's accession to the EU. Agro-environmental measures will be included in the Plan. The Concept on Solutions to the Rural Problem and Rural Development has been elaborated and submitted to the Government for approval. It will provide an opportunity to halt the enduring recession in the rural economy.

According to the "**Forest Law**" and the Regulation "*On Performing of Forest Monitoring*" forest monitoring is carried out by the State Forest Service in order to evaluate the situation in forest health and environment. The Regulation "*On Utilisation of Forest Reproductive Material*" adopted on 7 August 2001 complies with EU Directive 1999/105/EC. The Regulation determines the registration of basic material, quality demands and certification requirements for the forest reproductive material and the marketing and use of material (including genetically modified material).

The Ministry of Agriculture as the holder of 33% shares of the greenfield pulp mill "Baltic Pulp", is negotiating with the potential pulp mill investors to reach compliance of the project at its implementation stage with EU requirements for environmental protection and state support control.

The relevant institutions (the Ministry of Agriculture, the Rural Support Service etc.) continue to increase their capacity and learn more about their role in the rural development measures within the Rural Development Plan and the Single Programming Documents. Currently, intensive consultations with the rural population and farmers are being carried out regarding the rural development measures which are being elaborated. It is expected that by the end of 2002 the first draft will be prepared within the chosen rural development measures.

Since September 2001, considerable progress has been made regarding the transposition and implementation of the EU legislation in the **veterinary** field.

As regards **animal health**, on 19 March 2002 the Regulation “*On Eradication and Elimination Procedure of Epizootics and Threats*” was adopted transposing directives 92/119/EEC, 92/66/EEC, 92/40/EEC, 85/511/EEC, 80/217/EEC, and 92/35/EEC.

On 30 April 2002 the Regulation “*On procedure of prevention and combat of diseases contagious to both human and animals*” was adopted transposing Directives 92/117/EEC and 64/432/EEC. On 14 May 2002 the Government adopted the Regulation “*On working conditions necessary to carry out veterinary expertise and procedures of veterinary expertise*” in line with Directives 64/433/EEC and 77/96/EEC.

To implement the Regulation a number of Instructions of the Food and Veterinary service have been adopted in line with the acquis covering occurrence or suspicion of bovine spongiform encephalopathy, eradication of foot and mouth disease and elimination of threats thereof, eradication of Newcastle disease and elimination of threats thereof, and eradication of avian influenza and elimination of threats thereof.

The Food and Veterinary Service has carried out preliminary work to join the **ADNS** system and in December 2001, 3 contact persons of the Food and Veterinary Service received ADNS users passwords. The Food and Veterinary Service has completely implemented requirements laid down by Directive 82/894, ensuring communication to the Commission of diseases to be notified in case of their occurrence.

As regards **animal waste treatment**, on 16 April 2002 the Government adopted the *Concept On Collection, Rendering and Disposal of Animal Waste*, providing for establishing of a high-risk animal waste collection and treatment system under private ownership. The construction of the waste treatment enterprise will be supported from the SAPARD Programme. Animal waste collection and disposal costs will be borne by the owner of animal waste. The system will be fully operational from January 2005. On 26 February 2002 the Regulation “*On Residue Control and its Financing*” was adopted transposing Directive 96/23/EC.

The law “*On Animal Feeding Stuffs*” implementing the main EU requirements has been submitted to the Parliament for adoption and will be adopted by the end of 2002. The bulk of the European legislation has to be introduced by Regulations (on approval and registration of establishments and intermediaries operating in the animal feed sector; on feed additives; on undesirable and prohibited substances in animal feed; on labelling of animal feed; on dietary and medicated animal feed) and Instructions (on methods of sampling for the official control; on methods of laboratory analysis for the official control; on list of countries and establishments importing animal feed into the Republic of Latvia), most of which have been already drafted. The law provides the necessary rights for inspectors and imposes responsibilities on establishments.

The Food and Veterinary Service is implementing the **ANIMO** system, including translation of ANIMO software (nationalisation). By August 2002, the ANIMO user's guide will be prepared and software will be configured in co-operation with EuroCom. On 12 December 2001, information about the ANIMO system (postal codes of the Republic of Latvia and files containing ANIMO access points to be used for information exchange) was sent to the European Commission.

The **identification and registration of animals** has been completed for pigs, goats and sheep. Since August 2001 slaughterhouses are accepting only identified animals. The Food and Veterinary Service is responsible for registration of animals and herds, identification of herds and movement of animals. Registration of animals is entrusted only to certified and licensed persons, to specialists of the Data Processing Centre and of the Rural Support Service handling the register of herds and animals.

Latvia has transposed EU requirements in national legislation concerning the **general welfare requirements for farm animals** (Directive 98/58/EEC), as well as requirements for protection

of animals during transportation and welfare requirements for pigs and calves. The Regulation "*On Welfare Requirements for Hens*" has been submitted to the Government for approval and will be approved by August 2002. The Regulation "*On Requirements for Animal Protection during the Slaughtering Procedure*" transposing the remaining EU requirements (requirements for stunning and slaughtering of productive animals were already transposed in 1998) is being coordinated between the ministries and will be approved by October 2002.

To ensure a uniform State veterinary supervision and control at sheds of farm animals, the Food and Veterinary Service has prepared and approved a form for Inspections on Animal Sheds and methodology of inspections on animal sheds and inspection report. Since January 2002 the Food and Veterinary Service carries out inspections on farm animal sheds and assesses their compliance with animal welfare requirements.

As regards the modernisation of **border inspection posts** on external borders, the Sanitary Border Inspection of the Food and Veterinary Service takes part in the Phare 2000 project "Development of integrated Latvian border management and infrastructure" and the Phare 2001 project "Development of infrastructure of the Sanitary Border Inspection and customs control posts in ports and on railway". Modernisation of sanitary border inspection posts is financed from the State Investment programme and will cover both veterinary and phytosanitary control of consignments.

The control posts are equipped with disinfections barriers and mats, and 2 control posts are equipped with sprayers, which were successfully used during the deterioration of the situation due to the Foot and mouth disease. Seals for samples have been introduced to provide safe transportation of samples to the laboratories. Since 2001, the veterinary border control document complies with the Directive 97/78/EC Annex B and the Directive 53/13/EEC.

8 dairies and 8 fish **processing establishments** are included in the list of the EU approved establishments. Annual State supervision and control programmes have been prepared and the Food and Veterinary Service carries out assessment, supervision and control of establishments involved in the food chain.

The EU requirements with respect to the **health mark** for products complying with EU rules will be introduced by the date of accession to the EU. As regards milk and milk-based products, the respective requirements have been transposed in the Regulation "*On circulation of milk, treated milk and milk-based products*", adopted on 20 November 2001. On 28 May 2002 the Regulation "*On marking of meat and meat products*" was adopted by the Government transposing the requirements of Directives 64/433/EEC, 71/118/EEC, 77/99/EEC, 94/65/EC, 91/495/EEC, 92/45/EEC.

In accordance with the law "*On Stoppage of Operations of Establishments, Institutions and Organizations*", establishments failing to meet requirements laid down by regulatory documents will be immediately stopped, if, for example, the health or lives of humans are at risk.

In addition to these activities foreseen by the supervision and control programmes and control plans, the Food and Veterinary Service has carried out assessment of all the establishments involved in the food chain in accordance to *acquis* requirements. The Food and Veterinary Service together with owners of establishments has prepared the modernisation plans of each establishment. Henceforth, inspectors of the Food and Veterinary Service will follow the execution of tasks provided by these plans.

There are three categories of establishments: (1) establishments which conform or will conform to the EU requirements upon accession; (2) small-scale establishments which will operate only on the national market; (3) establishments which have requested a transition period and will operate only on the national market until the conformity is achieved.

Since September 2001, important progress has been achieved regarding transposition of the acquis in the public health sector. On 2 October 2001 the Regulation "*On production of meat products*" transposing Directive 77/99/EEC, on 30 October – the Regulation "*On circulation of poultry meat and rabbit meat*" transposing Directive 71/118/EEC and on 20 November 2001 – the Regulation "*On circulation of milk, treated milk and milk-based products*" transposing Directive 92/46/EEC was adopted. On 23 April 2002 the Regulation "*On veterinary requirements for circulation of poultry and hatching eggs*" was adopted transposing the Directive 90/539/EEC.

In 2001 and 2002 Latvia is paying particular attention to the measures in respect of **BSE**. On 1 November 2001 the Government adopted the Regulation "*On procedure for rendering and disposal of animal waste*" laying down the procedure for rendering and disposal of specific risk materials. The Regulation will enter into force on 1 July 2002. The Order of the Food and Veterinary Service of 10 January 2002 lays down categories of animals subject to laboratory examinations and the Order of 21 February 2002 provides for storing documentation on TSE. The Instruction "*On handling suspect and confirmed cases of BSE*" was adopted on 23 July 2001.

In order to enforce the State veterinary supervision and control, taking into account the BSE eradication strategy of the EU Member States and the specificity of Latvia, the Programme for TSE Prophylactics and Control (The TSE Prophylactics and Control Program of the Republic of Latvia) was approved on 26 October 2001, providing for laboratory examinations of all slaughtered cows imported from TSE affected countries, for all slaughtered imported cows above 24 months of age, for cows, sheep and goats of all ages, which are slaughtered (killed) due to disorders of the nervous system (suspected TSE case), for all cows slaughtered under compulsory measures which are above 24 months of age, for cows which in the result of veterinary expertise have been acknowledged as unsuitable for human consumption and are above 24 months of age, and for all cows which have died and are above 24 months of age.

The Order of the Food and Veterinary Service of 23 July 2001 provides for handling of BSE suspected cases and confirmed BSE cases.

There is a list of slaughterhouses where slaughter of cows, sheep and goats is permitted, as well as a list of slaughterhouses where animals are slaughtered under compulsory measures. Requirements are set for slaughterhouses in respect of receipt of animals and veterinary expertise. Methodology has been approved for laying down provisions for storing of slaughter products during laboratory examinations on TSE.

To ensure prophylactics and control in accordance with EU requirements, strengthened supervision is being carried out on compliance of animal feed with manufacturing and marketing requirements, regarding restrictions on the use of animal feed containing animal origin protein, as well as control of disposal of animal waste.

The **administrative capacity** of the supervision and control institution of the food chain safety in Latvia – the Food and Veterinary Service of the Ministry of Agriculture – has been continuously strengthened. The number of inspectors was enlarged by 425 (57%) comparing with 2001 mainly due to enlargement in functions of the Food and Veterinary Service, which, starting from 2002, carries out control of the whole food chain "from stable to table". The State budget of the Food and Veterinary Service in 2002 amounts to 6 786 910 LVL.

Intensive work has been accomplished to train inspectors of the Food and Veterinary Service - 30 veterinary inspectors were trained to supervise and control animal diseases, 110 food inspectors and 346 veterinary and food inspectors were trained to carry out supervision and control of the State delegated functions and 200 food and veterinary inspectors were trained by participating in international workshops in the EU Member States within Phare, bilateral projects and TAIEX.

With a view to improving technical resources, equipment (5 sets) necessary for limiting spreading of infectious diseases and eliminating consequences thereof, as well as 15 cars, 50 computers, 73 mobile phones and 5 fax machines necessary for supervision and control were acquired.

The State Breeding Information Data Processing Centre (including 9 regional centres) employs 43 specialists. 9 regional data processing units have been established in 2002 and are fully operational.

A detailed programme for staff recruitment and training in the Sanitary Border Inspection was elaborated in 2001. Primary staff training of 3 months is provided for all new employees before they become border inspectors. The qualifications (VAI skills) of border inspectors are improved in annual training courses and seminars. At the end of each training course the attestation of inspectors is carried out. In order to improve co-operation among the institutions involved in border inspection, the Twinning project "Elaboration of Integrated Border Management Strategy" is ongoing.

Technical equipment of the Sanitary border inspection has been upgraded: (1) Each control post is fully equipped with computers, workstations and printers; (2) The border control posts are connected to the National Data Transmission Network, and it is possible to use e-mail, phone and fax there; (3) There is 1 specialised car for transportation of samples to the laboratory, 1 car for prevention of damage to the information system at control posts, as well as 4 cars for control posts; (4) 10 control posts are provided with laboratories equipped with special furniture and equipment: microscopes, pH-meters, thermometers, scales, microwave ovens, refrigerators, probes etc.

The pre-audit has been carried out in the phytosanitary and management area of the Sanitary Border Inspection in order to prepare for its accreditation.

203 sanitary border inspectors have attended the training course for improvement of their qualification skills to comply with EU requirements. The border inspectors have attended a seminar on control of fish-products organised by lecturers from Finland, a TAIEX seminar on animal welfare and protection during transportation, as well as a seminar on introduction of CITIES legislation. 149 border inspectors have improved their computer skills.

In 2001 the number of inspectors supervising animal welfare, animal feed and veterinary pharmaceuticals was increased by 51, ensuring reinforcement of veterinary supervision. 30 veterinary inspectors were trained on supervision and control of animal infectious diseases, and veterinary inspectors were trained to carry out BSE supervision and control.

The Food and Veterinary Service has submitted a Phare 2002 project "TSE/BSE control".

Improvement of the **phytosanitary** control system is one of priorities of the Ministry of Agriculture. On 5 March 2002 the amendments to the Regulation "*On Plant Quarantine*" were adopted to provide the implementing measures for **plant passports** according to the EC Directive 92/105/EEC. The issuing of plant passports will start on 1 January 2003 with the exception of the fruit and berry planting material (starting date 15 July 2002). The registration of producers and importers of particular plants and plant products, which forms the basis of the plant passport system, was continued.

A detailed phytosanitary survey plan has been elaborated for the year 2002. The survey plan includes the planned amount of samples in each region for different plant quarantine organisms such as fire blight, potato cyst nematodes, potato ring rot, potato brown rot, glasshouse pests, pine wood nematode, rizomania and chrysanthemum white rust.

An internal control plan for phytosanitary inspectors has been elaborated in accordance with the suggestions of EU experts, and controls will be carried out once a year at each phytosanitary control point.

An agreement on cooperation and exchange of information has been signed between the State Plant Protection Service (SPPS) and the Sanitary Border Inspection of the Food and Veterinary Service for improvement of coordination: regular meetings between services, exchange of information (reporting of imported consignments subjected to phytosanitary control, intercepted consignments, findings), elaboration of common methodological guidelines for phytosanitary control.

Amendments to the Regulation “*On Authorization of Plant Protection Products*” have been drafted, providing measures for granting of provisional authorizations, procedures to be followed for granting authorizations to minor crops, more detailed provisions for data protection and confidentiality 91/414/EEC, more detailed provisions for data requirements: 93/71/EC (Efficacy), 94/37/EC (Identity, Phys.-chem. properties, other information), 94/79/EC (Toxicology and metabolism), 95/35/EC (GEP requirements), 95/36/EC (Fate and behaviour in the environment), 96/12/EC (Ecotoxicology), 96/46/EC (Analytical methods), 96/68/EC (Residues).

2 testing methods have been adopted by the laboratory complying with EC Directives 93/85/EEC and 98/57/EEC for detection of harmful organisms in order to prepare for accreditation of the laboratory. Draft Instructions of the Minister of Agriculture have been prepared complying with EC Directives 69/464/EEC, 69/465/EEC, 93/85/EEC and 98/57/EEC to improve the performance and to clarify juridical force of methodical guidelines for control and eradication of organisms harmful to potatoes, which will be approved by Minister of Agriculture in July 2002.

Construction of the glasshouse for the quarantine laboratory has been finished. Test plants for the quarantine laboratory have started to grow.

In 2001, the **administrative capacity** in the plant protection area has been improved. The new structure of the State Plant Protection Service (SPPS) is in force since 1 March 2002. The restructuring of the SPPS is based on recommendations of EU experts, as well as perspectives for development of the agricultural sector in Latvia. The main objectives of the new structure are: to set apart the control and surveillance of implementation of legislation from the coordination and planning of implementation, to increase effectiveness of administrative activities and monitoring of them, to optimise territorial location and implement the regional principle and to take advantage of effective use of human and financial resources.

In 2002, the SPPS has 210 employees, 141 of them civil servants. The budget of the SPPS for the year 2002 is 1 386 452 LVL.

The training programme for the year 2002 has been elaborated. The training programme includes the latest legislation in plant health, guidelines for inspections and sampling, plant quarantine organisms, inspection of fruit tree and berry planting material for issuance of plant passports. 40 inspectors are expected to receive 21 hours of theoretical training and 15 hours of practical training. In 2001, 30 phytosanitary inspectors attended an 8 hour-long theoretical course on the latest plant health legislation and the latest SPPS instructions for phytosanitary control and supervision, an 8 hour-long theoretical course on plant quarantine organisms and 7 hour-long practical training for detection and identification of plant quarantine pests.

The Twinning project is being prepared between the Danish Plant Directorate and the State Plant Protection Service to strengthen the administrative capacity of the SPPS. The project provides for training of Latvian inspectors and administrative staff in the implementation of EU legislation and assessment of the implementation of legislation in Latvia by Danish experts.

2 experts have been trained in Denmark on pesticide risk assessment (evaluation of environmental fate and behaviour, ecotoxicological and toxicological properties). Experts also take part in ECCO working groups.

In order to improve the phytosanitary border control, the Sanitary Border Inspection has started working on the accreditation in the phytosanitary field according to the European Standard EN 45004:1995 (General criteria for the operation of various types of bodies performing inspection). All control procedures have been elaborated; a cooperation agreement has been signed between the State Plant Protection Service and the SPPS Division for Diagnostics of Plant Quarantine Organisms. Each year the phytosanitary border inspectors attend qualification courses (30 h).

8. Fisheries

In 2001 the fisheries sector in Latvia comprised 1.8% of GDP. Employment in the fisheries sector constitutes around 1.5% of the total employment (15 300 persons, of which 8000 in fish processing, 7000 in fishery, 300 in aquaculture).

In 2001 the export of fish and fisheries production were 161 700 tonnes (LVL 51.4 million), and import 39 200 tonnes (LVL 16.9 million). The external trade balance of fish and fish production in 2001 was positive and constituted around LVL 34.5 million. In 2001 the fish and fish production export ratio in total Latvia's export increased to 4.1% (2.7% in 2000).

In 2001 the proportion of prepared, preserved and canned fish products decreased, while chilled and frozen fish production increased. In 2001, Latvia exported 82.6% of its total fish production and 99% of its total canned fish production.

There are around 110 companies in Latvia engaged in fishing in the Baltic Sea and the Gulf of Riga beyond 2 nautical miles of coastal waters. In 2002, 202 vessels with an engine power of more than 55 kW and 21 vessels with an engine power of 55 kW or less, were fishing in these waters. The average age of the vessels is 26 years.

Though fish caught in coastal waters amounts to only 3-4% of the total catch in the Baltic Sea and in the Gulf of Riga, coastal fishery is an economically and socially significant component of Latvia's fishing sector within the local coastal communities. Fishing is often the main source of employment for residents of these regions. In 2001, 83 fishing companies and 575 individual fishermen were engaged in the coastal fishery.

The high-seas vessels operate in the Eastern, Central and Northwest Atlantic. A considerable part of that fishery has been based on commercial agreements for fishing in the economic zone waters of Mauritania, Senegal and Morocco, and provides 40% of Latvia's total annual catch.

In 2002, around 130 fish processing companies operate in Latvia. Most of the companies are located on the coast of the Baltic Sea and the Gulf of Riga near local fishing ports. 8 of the total number of fish processing enterprises are allowed to export their production to the EU.

In 2001 Latvia made significant progress in order to ensure full compliance of Latvian legislation with the *acquis* in the fisheries sector, especially in the field of resource management, inspections and control of fishing activities. All institutions involved in the fisheries administration are being continuously strengthened both in terms of number of employees and financial resources.

Amendments to the "*Fisheries Law*" were adopted on 6 November 2001 setting down the control and enforcement system for fishing infringements by Latvian vessels in international waters and in the waters of other countries. The Regulation "*On Commercial Fishing in the Territorial Waters and the Economic Zone Waters*" was adopted on 13 November 2001 laying down numerous EU requirements – the legal basis of implementation of the satellite-based Vessel Monitoring System, responsibilities of officials for performing enforcement on fishing grounds, fishing gear and documentation control. Fishing licences and logbooks are annexed to the Regulation.

Within the ongoing Phare 2000 project “Strengthening Latvia’s fishery administration to meet requirements of the Common Fisheries Policy (CFP)” a detailed analysis of the legislation is being carried out. A detailed time schedule for harmonisation of legislation has been set out.

As regards structural actions, three sub-programmes of the National Development Programme for the Fisheries Sector (1995–2010) have been elaborated and revised in 2001 and 2002 - *Fishing Fleet Development Programme (2001-2003)*, *Fish Processing Industry Development Programme (2001-2006)* and *Fisheries Education and Science Development Programme (2002-2010)*.

Within the Phare 2000 project the above-mentioned development programmes will be assessed according to the requirements of structural programming in the fisheries sector. By the end of 2002, the fisheries chapter for Latvia’s Single Programming Document (SPD) will be elaborated. The SPD will contain the information on action strategy and priority measures based on EU structural funds (including FIFG) and other financial resources.

The Rural Support Service (under the supervision of the Ministry of Agriculture) is designated as the competent institution for the administration of the public financial support (state aid and EU funds) in the fisheries sector.

Fisheries administration in Latvia is primarily represented by the National Board of Fisheries (NBF), which is under supervision of the Ministry of Agriculture (30 employees). In 2002, two additional employees were engaged for the NBF with the responsibility for structural programming issues and Integrated Control and Information System (ICIS) development. All NBF employees improved their skills by attending specialised English vocabulary and fisheries terminology courses and computer training courses on ICIS in the framework of the Phare 2000 project.

Important steps have been taken in 2001 with regard to **resource management, inspection and control**. All Latvian vessels fishing in EU waters are already equipped with satellite tracking devices. The remaining Latvian fishing vessels with overall length of more than 24 meters will be equipped with these devices before 1 January 2003.

In the framework of the bilateral Latvian – Danish technical assistance project, the Vessel Monitoring System in Latvia is currently being developed. On April 2002, the installation of main software (Terravision, Oracle, Mapinfo), as well as testing and commissioning of the system, began. As of June 2002, the FMC is able to receive signals from the fishing vessel satellite Inmarsat C transceivers.

Specialists of the Danish Directorate of Fisheries are currently training 3 employees of the Marine Environment Board (MEB) of the Ministry of Environmental Protection and Regional Development to handle the Vessel Monitoring System.

As regards inspection and control of fishing activities, the MEB employs 22 State Environment inspectors. 11 additional inspectors are directly responsible for the fish landing control in ports (one inspector for each of 10 ports and one for working with the database).

The capacity of the MEB was significantly improved in 2001. Each inspector has been equipped with a portable laptop computer in order to enter and maintain operative catch data at ports for the future ICIS system in fisheries. Control in the open sea is carried out using 5 MEB inspection vessels and cutters. Close co-operation with the Navy has been continued. In 2001, 55 inspection trips with the Navy and 30 inspection trips with the MEB inspection vessels and cutters were made outside coastal waters.

For 2003 the MEB requested additional finance resources from the state budget – LVL 46 000 for fish landing control and LVL 21 000 for running of the VMS system.

Within the Phare 2000 project, the **Integrated Control and Information System (ICIS)** in fisheries is being developed. The system ensures the data flow through all fisheries

administrative structures, including the National Board of Fisheries, the Marine Environment Board (the central office and regional divisions), the Latvian Fisheries Research Institute and the Latvian Ships Register. The system handles fishing vessel registration data, licensing data, logbook, landing declaration, sales note information and will perform crosschecks of catch data.

A part of the hardware and software required for establishing the ICIS system for all fisheries administrative institutions is already in place. Additional modernisation of the equipment will be continued in 2002 and the data network will ensure safe and reliable data exchange between the involved institutions. Development of software for the ICIS system will start in the third quarter of 2002 after completion of all tendering procedures. The system will be completely operational by March 2003.

Relevant staff from all involved institutions is being trained to ensure the fully operational ICIS system. In 2002 a seminar on information systems and data collection methodology will be organised and a study tour to EU Member States will take place. The necessary staffs to work with the information system (55 persons) are already available at responsible administrative structures.

In 2001, the National Board of Fisheries elaborated the *Fishing Fleet Development Programme*, which sets up the necessary measures and actions for fleet restructuring and modernisation. Within the Phare 2000 project the programme will be amended to take into account the EU requirements and planned changes in the EU Common Fisheries Policy.

To achieve full transposition of the *acquis* in the field of fishing vessels registration, the Regulation “*On Fishing Vessels Registration Requirements*” will be adopted by 1 July 2002 and the Regulation “*On Safety Requirements (including external marking requirements)*” will be adopted by the end of 2002.

70% of all fishing vessels have been already re-measured by the Latvian Marine Administration of the Ministry of Transport according to the *acquis* requirements, while re-measurement of all vessels will be finished by the end of 2002. In 2002 the database of the Fishing vessel register will be supplemented with dates on small fishing vessels and boats of those fishing enterprises which have obtained permission to operate fishing vessels outside the 2-nautical miles coastal waters fisheries management zone.

2 persons at the Latvian Ships Register work with issues on fishing vessels. 1 of them attended a seminar on fishing vessels registration in Sweden in 2001.

In the area of **market organisations** within the Phare 2000 project the relevant EU legislation on the Common Market Organisations is being analysed and the necessary legislative amendments will be prepared by the end of 2002.

The amendments to the “*Food Circulation Monitoring Law*” were adopted on 28 December 2001, stipulating that the Food and Veterinary Service monitors and controls food producing companies and the food circulation process, including the trade with fish and fish products.

In 2001, 9 inspectors from the Food and Veterinary Service have been additionally trained on the practical control of fisheries marketing standards. This institution performs the market surveillance of fish and fisheries products, including fish freshness and size criteria and categories.

9. Transport Policy

Most of the legislation in the area of transport policy has been transposed. Alignment of legislation continued in the field of road transport, concerning market access, social legislation and technical requirements. Legislation is being drafted to align with the *acquis* in the field of

inland waterways. With transposition of the Directive on the interoperability of the Trans European High-speed Railway System and the new railways infrastructure package directives by the end of 2002, full alignment with the railways *acquis* will be ensured. In the field of air transport, the transposition of the *acquis* is practically completed. The administrative capacity of institutions involved in the enforcement of the transport *acquis* was strengthened, particularly in the field of maritime transport.

In the field of **road transport**, amendments to the law "*On Carriage by Road*" were adopted by the Saeima on 9 May 2002, providing the basis for secondary legislation transposing requirements on speed limiting devices of Directive 92/6/EEC, on the use of vehicles hired without drivers for the carriage of goods by road of Directive 84/647/EEC, and on the own-account operations adapting Council Regulations 881/92 and 684/92. The amendments to the law "*On Carriage by Road*" and secondary legislation will enter into force on 1 January 2003.

To harmonise the minimal tax rates to be applied in accordance with the Directive 99/62/EC, amendments to the law "*On Annual Vehicle Tax*" are being redrafted and will be adopted by the end of 2002.

For adapting social legislation under Council Regulation 3820/85 the Regulation "*On Requirements Regarding Driving and Rest Hours and Their Registration for Drivers Driving Vehicles that Correspond to Driving Licence of C1, D1, C and D Category*" was adopted on 26 March 2002. The Regulation entered into force on 1 June 2002. The vehicles, which operate in the domestic market and will be equipped with tachographs by 1 January 2005, will keep a control book.

Several pieces of legislation were adopted to align with the *acquis* requirements concerning technical equipment. The Regulation "*On recording equipment for vehicles that correspond to driving licence of C1, D1, C and D category*" was adopted by the Government on 16 October 2001 transposing requirements of the Regulation 3281/85/EEC. Amendments to the "*Road Traffic Regulations*" allowing for the 11,5 tonnes for driving axle were adopted on 6 November 2001. The amendments are in force since 1 January 2002. Hereby, full compliance with Directive 96/53/EC is ensured.

The Regulation "*On the Appointment, Professional Qualification and Activities of Safety Advisers in the Field of Transport of Dangerous Goods*" was adopted by the Government on 27 December 2001 to ensure implementation of Directives 96/35/EC and 2000/18/EC. The Regulation "*On Qualification of Safety Advisers in the Field of Transport of Dangerous Goods*" adopted by the Ministry of Transport on 28 March 2002 defines in a more detailed way the order for obtaining a professional qualification certificate and training and examination procedure. The Regulation contains the list of subjects to be included in the training programme that is mandatory for safety advisers to receive the respective certificate.

For the implementation of the Council Regulation 1108/70 on introducing an accounting system for expenditures on infrastructure, the Regulation on the accounting system for expenditures on road infrastructure is being drafted and will be adopted by the end of 2002.

Amendments to the Regulation of the Ministry of Transport "*On Licensing of Entrepreneurship in the Field of Commercial Carriage by Road*" are being elaborated and will be adopted by 1 July 2002, including the timetable for increasing by 31 December 2006 the minimum level of financial standing requirements for road transport operators carrying out domestic transport services as set out in Directive 98/76/EC.

Amendments to the law "*On Road Traffic*" were approved by the Saeima in the first reading on 2 May 2002. On the basis of the amendments the Regulation on qualification of drivers and on procedure of issuing, replacing and renewing of driving licences will be adopted by the end of the year 2002, ensuring compliance with the EU-type driving licence.

The *INTERBUS Agreement* was ratified by the Saeima on 14 March 2002.

The administrative capacity of the Road Transport Administration, which is responsible for control of road transport operations, was further strengthened. The number of controllers in the Road Transport Administration has increased by 2 since February 2002. The number of controllers will be increased by 2 by August 2002. The controlling capacity will be increased by the beginning of 2003 with up to 35 units, including administrative staff. Three buses equipped with movable weighting units are at the disposal of the Road Transport Administration for ensuring control. An additional weighting unit will be purchased by August 2002. The control units will be equipped by March 2003 with portable computers, copying and communication devices.

To improve the controlling capacity, the reform of institutions responsible for control of road transport operations has been initiated. The "*Concept on Control in Road Transport*" was submitted to the Government on 11 April 2002. The Road Transport Administration will be split into the Road Transport Agency and the Road Transport Inspection. The Road Transport Agency will retain the function of licensing of transport operators. Concerning the further organisation of control, the Concept suggests two options: either the Road Transport Inspection is given responsibility for control, or the whole control is taken over by the Ministry of Interior. The reorganisation of the Road Transport Administration will be completed by the end of 2002.

The number of roadworthiness tests carried out by the Road Traffic Safety Directorate increased from 572 065 in 2000 up to 578697 in 2001.

The safety adviser institution for the transport of dangerous goods was introduced in January 2002. There are about 400 enterprises dealing with the transport of dangerous goods in Latvia. Around 10% of them had appointed safety advisers by 1 April 2002. The Road Transport Administration is responsible for enforcement of legislation concerning the certification of the safety advisers according to the Directive 96/35/EC. To ensure examination of safety advisers, the Examination Commission was established under the leadership of Ministry of Transport on 9 May 2002.

The examinations for obtaining road transport operator professional competence certificates in accordance with Directive 96/26/EC as amended by Directive 98/76/EC are being organized by the Examination Commission established by the Minister of Transport since April 2001. By 1 May 2002, 236 professional competence certificates had been issued for international road haulage, 26 for international passenger transport and 70 testifying competence both in international road haulage and passenger transport.

Latvia does not have navigable **inland waterways** except for a short stretch of waters close to the seaports. Nevertheless, a part of the *acquis* regarding inland waterway transport will be transposed into Latvian legislation to ensure the rights of EU nationals. The Regulation of the Ministry of Transport "*On Training and Certification of Seamen*" will be amended to ensure that the Latvian Seamen Register recognizes the certificates of boat masters issued by the competent EU authorities for the carriage of goods and passengers by inland waterways. With adoption of these amendments by July 2002, Directive 91/672/EEC will be transposed.

To ensure access to the occupation of carriers of goods by inland waterway transport according to Directive 87/540/EEC, the Regulation "*On Licensing of Certain Types of Business Activities*" will be respectively amended by the end of 2002.

In the area of **railways**, amendments to the law "*On Railways*" are being drafted to transpose Directive 96/48/EC and the new railway infrastructure package directives. Their adoption is envisaged by the end of 2002.

In the framework of the restructuring of the JSC “*Latvian Railways*”, a separate Passenger Carriage Operator for inland carriage – the subsidiary JSC “*Passenger Train*” was established on 1 January 2002. The other subsidiary companies will start to operate by the end of 2002.

Amendments to the law “*On Carriage by Road*” adopted by the Saeima in the second reading on 18 April 2002 provide for definition of **combined transport**. On the basis of the amendments to the law “*On Carriage by Road*”, the Regulation on combined transport will be adopted by September 2002.

In the area of **maritime transport**, the “*Maritime Code*” was submitted to the Saeima on 14 February 2002. The “*Maritime Administration and Maritime Safety Law*” was submitted to the Saeima on 9 May 2002. With adoption of the laws scheduled for July 2002 the legal basis will be created for full implementation of the *acquis* in the field of maritime transport. The preparation of secondary legislation is ongoing. The Regulation “*On Technical Requirements on Recreational Craft*” implementing Directive 94/25/EC will be adopted in July 2002. Regulation “*On Safety and Health Requirements for Work on Board Fishing Vessels*” implementing Directive 93/103/EC, Regulation “*On Minimum Safety and Health Requirements for Improved Medical Treatment on Board Vessels*” implementing Directive 92/29/EC, and Regulation “*On Fishing Vessels Safety*” implementing Directive 97/70/EC are being elaborated and will be adopted by the end of 2002.

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

As a result of restructuring of the Latvian Maritime Administration, the Maritime Rescue Coordination Centre was transferred to the Latvian Navy (Coast Guard) of the Ministry of Defence in January 2002. There are now 108 employees in the Maritime Administration of Latvia. The Flag State and Port State inspections are performed by 14 inspectors of the Maritime Safety Inspectorate of the Latvian Maritime Administration.

The Phare 2001 Twinning project “*Maritime Safety*” will commence in July 2002 with the aim of building up the administrative capacity of the Maritime Administration of Latvia. It will analyse the human resources of the Maritime Administration of Latvia and the Maritime Department of the Ministry of Transport. The recruitment strategy will be elaborated, providing the basis for an increase in the staff of the institutions ensuring maritime safety.

The performance of Latvia as a flag state administration has improved. The detention rate of Latvian (inspected) vessels detained within the Paris Memorandum of Understanding on Port State Control has decreased from 7.7% in 2000 to 5% in 2001. The same level of performance in the Port State Control has been maintained. According to statistics, 497 inspections were performed in 2001, which accounts for 18.7% of the number of 2654 individual ships calling at Latvian ports. On 9 May 2002 Latvia became a co-operative member of the Paris Memorandum of Understanding on Port State Control.

In the area of **air transport**, amendments to the law “*On Aviation*” were adopted by the Saeima on 9 May 2002, providing the legal basis for adapting requirements of Regulation 2299/89 on computerised reservation systems. On the basis of these amendments the Government will issue Regulation “*On Computer Reservation Systems*” by August 2002. The amendments to the law “*On Aviation*” have been sent for interministerial co-ordination with an aim of determining the legal status of the independent accident and incident investigation body.

Concerning **investments**, Latvia has a good record in ISPA implementation. 9 transport infrastructure projects have been approved by the European Commission so far. The total eligible costs of the approved projects are MEUR 178 (ISPA financing – MEUR 133.5).

Implementation of the first stage of the project “*Via Baltica Improvements from km 13.0 (Gauja) to km 21.2 (Lilaste) on the state main road A1 (Riga – Ainaži)*” (first works contract) was completed in November 2001. Three contracts within the ISPA project “Technical assistance in rail sector” were completed in November 2001. The final report is being prepared for this project to receive final payment from ISPA. A draft works contract has been submitted to the Delegation of the European Commission concerning the project “*Improvements of links to Via Baltica (Airport Access Road (P133) and a related section on A10)*”. The contract of technical assistance in works supervision for this project was signed in March 2002. The tender for a feasibility study for Via Baltica road improvements from km 25.0 (Kekava) to km 42.9 (Iecava) on the state main road A7 (Riga – Grenctale) was launched in April 2002. Supply and technical assistance tenders for the project “*Modernisation of Latvian East - West railway corridor: replacement of track turnouts*” were launched in May 2002. Tender dossiers of other projects are at the approval stage.

10. Taxation

Over the past years Latvia has achieved significant progress in aligning its tax legislation with the *acquis*. The required minimum levels of excise tax on mineral oils and alcoholic beverages are in general already applied. The only exemptions are excise tax rates on beer and gas oil, kerosene and heavy fuel oil that will be brought into compliance according to the transitional provisions as of 1 January 2003. With regard to VAT (Value Added Tax), Latvian legislation is broadly in line with the *acquis*. Steps have been taken to complete harmonisation of the legislation in the area of indirect taxation. Tax administration is being constantly strengthened.

In the field of **VAT**, an important step towards complete compliance with the 6th Council Directive (77/388/EEC) was the adoption of amendments to the law “*On Value Added Tax*” by the Parliament on 22 November 2001. These amendments will provide for application of a reduced VAT rate of 9% for supply of goods and services that were subject to exemption in contradiction to the EC VAT legislation, as well as ensure full implementation of Directive 79/1072/EEC and Directive 86/560/EEC (refund to foreign legal persons the value added tax paid on goods and services purchased in Latvia) as of 1 January 2003.

With regard to **excise tax** on mineral oils and alcoholic beverages, the EU defined minimum levels are in general already applied. The only exemptions are excise tax rates on beer and gas oil, kerosene and heavy fuel oil. The rates will be brought into compliance according to the transitional provisions of the laws “*On Excise Tax on Beer*” and “*On Excise Tax on Mineral Oils*” and will come into force on 1 January 2003.

Progress has been made regarding excise tax on cigarettes. Based on the results of the investigation of Latvia's market for cigarettes and estimation of possible tax rates and economical and social effects caused by future tax increases, the Ministry of Finance has prepared a concept paper with several scenarios for introducing the combined excise tax for cigarettes and increasing the rate up to the level required by the Directives. According to the chosen scenario, amendments to the law “*On Excise Taxes on Tobacco Products*” will be drafted by 1 September 2002 and adopted together with the “*State Budget Law*” for 2003.

Amendments to the laws “*On the Application of Taxes in Free Ports and Special Economic Zones*”, “*On Riga Free Port*” and “*On Ventspils Free Port*” have been elaborated to align imposition of VAT to supplies of goods and services within free zones with the requirements of the 6th Council Directive; to align imposition of excise tax on fuel consumed by cranes, derricks and similar objects operating in the territories of free zones with the requirements of Directive 92/12/EEC; as well as to exclude the possibility of providing financial services under a free zone regime to achieve full compliance with the **Code of Conduct for Business Taxation**. The

amendments were accepted by the Government on 7 May 2002 and will be submitted to the Parliament in due course.

As regards alignment of Latvia's **direct tax** system to EU requirements, amendments to the law "*On Corporate Income Tax*" will be drafted by 1 September 2002. The amendments will regulate application of corporate income tax to companies (joint-stock companies and limited liability companies) in case of their reorganization and to dividends paid by subsidiary companies to parent companies in case they are located in different EU member states. Adoption of these amendments will ensure conformity with Directives 90/434/EEC and 90/435/EEC. Amendments to the law "*On Taxes and Duties*" will harmonize regulations according to which capital duty is imposed on rises in capital of capital companies, thus achieving compliance with Directive 69/335/EEC. Both amendments will be adopted together with the "*State Budget Law*" for year 2003.

The capacity of **tax administration** is being constantly strengthened, supported by improved tax revenue collection (an increase of 6% in 2001 as compared to 2000) and diminishing cost of collection of LVL 1 (from LVL 0.027 in 1998 to LVL 0.020 in 2001).

The modernisation of the SRS has been continuing through the SRS Modernisation project 1998-2002, SRS investment project, Phare projects, and the bilateral co-operation program with Denmark.

Introduction of a three level organisational structure has continued. Four regional offices (out of six) have already been established and are operational. Establishment of the SRS Riga Customs regional office is being planned in 2002 and the SRS Kurzeme regional office in 2003. Since the beginning of the SRS Modernisation project and establishment of the new Regional Offices, the effectiveness of control work and customer satisfaction have improved. In areas where the new service halls and work organization has been introduced, the satisfaction level of SRS customers towards the new office concept (disposition of premises) has increased by 20%. The satisfaction index of taxpayers with time devoted to them by SRS officials has increased by 1%, speed and quality of services - by 2.5%, level of satisfaction towards attitude of SRS officials - by 1.5%.

The SRS *Tax Administration Strategy* for 2002-2004 was developed and approved by the SRS Internal Order on 27 December 2001. The SRS Communication division started to operate on 2 July 2001. This division is responsible for internal communication, public relations and co-operation with mass media.

To improve the quality of services provided to taxpayers, establishment of taxpayer service halls continued in 2001 and in the beginning of 2002. By June 2002, 27 service halls have been established. The SRS is also considering the possibility of increasing the number of taxpayer service points along with the existing taxpayer service halls. The SRS uses booklets, information leaflets, publications, and information on the SRS web page (www.vid.gov.lv), and organises seminars to provide information for taxpayers. Taxpayer Consultation units have been established in all the SRS territorial offices, as well as the Training divisions in the SRS regional offices.

In the area of development of **IT systems**, the Electronic Filing System became operational in July 2001. In accordance with the law "*On Taxes and Duties*" taxpayers have the right to submit tax declarations, statements and tax calculation statements to the SRS both on paper and in electronic form. Currently it is possible to submit electronically 20 types of declarations and statements. Information on the Electronic Declaration System is accessible both on web and in the SRS Territorial offices. Since August 2001 the test application for electronic declaration testing is free for download.

The development of the tax enforcement information system (IS) has been completed and the system was launched in 2001. The data warehouse analysis system "*Taxpayers profiling*" was developed and launched in 2001 in order to improve tax control work.

In order to improve the protection of taxpayers' data, the SRS internal instructions on IS security, use of information and its classification have been approved, applications to register the most relevant SRS data bases have been sent out to the State Data Inspectorate, and a structural unit has been established with responsibility for availability of information, data security and protection.

Further development of tax administration IT system will be ensured under the framework of the Phare 2001 project. The Phare 2002 project "Creation of infrastructure of statistical services of the foreign trade statistic" (see also chapter 2.3.12. *Statistics*) is under preparation.

A personnel management strategic plan has been developed. Development of the career path system in the SRS has been started. In accordance with the law "On Civil Service" the status of civil servants was applied to employees of the SRS. Currently 86% of all SRS employees are civil servants. The share of employees with higher education reached 50% in January 2002. Rotation of the directors of the SRS territorial offices and heads of some structural units proved to be an effective tool of human resource management.

In order to raise administrative capacity, training courses, seminars and workshops are organised both for the staff of territorial offices and central administration. Since September 2001, 241 officials have been trained on tax administration issues, 208 on organisation of customs work and control, 69 on EU related issues, 615 on IT issues, 60 on protection of intellectual property rights and 112 on prevention of corruption. Training on prevention of corruption and Code of Ethics is included in basic training for new employees. A number of other specific training activities have also taken place.

The SRS is paying great attention to raising its capacity for **tax control**. Special emphasis has been put on tax control in the field of VAT. In 2001, the operational plan "On the Improvement of the VAT Administration" was developed. The improvement of tax control efficiency, achieved by re-distribution of control functions and increased attention to VAT administration, can be illustrated by the decrease in the number of tax audits (34% less than in 2000) and increase in additionally calculated sums (the average amount collected per tax audit increased by 19 % in 2001 as compared to 2000). 21 900 topical controls were performed in 2001, i.e. 9 % less than in 2000, while the number of hits increased by 6%.

Within the Phare 1999 project "Establishment of computerised tax audit system in the SRS", version 1.0.0 of data analysis system ESKORT has been installed. A special working group was set up to develop the taxpayers selection system by defining selection provisions and criteria. Work on result testing has been initiated. Implementation of the Phare 2001 Twinning project "Improvement of taxpayers' and customs clients' support system" is ongoing.

The Tax Accounting Manual developed in 1998 was supplemented with new chapters. Measures were taken to improve the arrears enforcement methodology: the order of how to determine and include the tax arrears in the statement "*The arrears accounted for in the SRS local office*" was developed; the size of the debt to qualify for initiation of enforcement activities was determined; a single form for the filing of information about an enterprise which has gone bankrupt was developed. In 2001, amendments to legislation were introduced, delegating more powers to the SRS instead of the Ministry of Finance concerning decisions on recovery of arrears.

Certain activities have been carried out to strengthening the effectiveness of the SRS **appeals system**. The necessary amendments to the law "*On Taxes and Duties*" in the section on reviewing tax disputes have been drafted jointly with the Ministry of Finance. The amendments will be adopted by the end of 2002. In order to provide coherent criminal and civil proceedings, instructions on how to process revision materials after request by the prosecutor of the process are being developed in co-operation with the General Prosecutors Office. A number of seminars were organised for the officials of the SRS territorial offices on legal practice. In comparison with previous years, the number of tax appeals submitted to the SRS Director General, as well as

the number of cases brought to court, has significantly increased. In 2001 the SRS Director General resolved 559 decisions related to taxpayer appeals (41% more than the previous year). In the first three months of 2002, the number of decisions resolved by the SRS Director General in the SRS internal appeals system was 99.

Work in the **corruption prevention** area has improved. 283 administrative offences were discovered in 2001 (in 2000 – 279 cases) and 12 cases (in 2000 – 9 cases) were sent for investigation.

To increase operational capacity of the SRS **Financial Police Department** (FPD), 7 new units and sectors have been established within the FPD in the SRS Central Administration, and 4 departments in the SRS Zemgale, Kurzeme, Vidzeme and Latgale regional offices started operating on 3 September 2001. In the Operative Proceedings Division of the FPD, a Verification Unit, Serious Crime Disclosure Unit, Revision Unit and Persons Research Sector have been established, and a Special Malfeasance Investigation Unit has been established in the Investigation Division of FPD. Additionally there is a Service for Prevention of Legalization of Criminal Assets as well as an External Co-operation Sector within the structure of the FPD. In 2002 additional financial resources have been allocated for 18 new staff positions in the Financial Police. 21 FPD officials participated in qualification improvement courses in 2001.

The SRS is focusing on facilitating exchange of information with tax and customs administrations of other countries. By January 2002 exchange of information was possible with 26 countries that have signed the convention "*On the Avoidance of Double Taxation and Prevention of Tax Evasion*". The Parliament has ratified conventions with Italy, Belgium, Portugal and Turkey.

The establishment of a Central Liaison Office, training of specialists, supplies of hardware and software are planned in 2003 within the framework of the Phare 2001 project "*Institutional Strengthening of Tax and Customs Administrations*".

11. Economic and Monetary Union

The Latvian authorities have a clear-cut policy on the European Monetary Union (EMU): Latvia must be able to join the EMU at the time of its accession to the EU. The Government and the Bank of Latvia have adopted macroeconomic policies designed to strengthen stability and ensure compatibility with the principles of the EMU.

The Bank of Latvia maintains the exchange rate peg of the national currency to the SDR since 1994. There are no plans to change this arrangement prior to accession to the EU. The range of the Bank of Latvia's monetary policy instruments, as well as their usage, corresponds to the practice of the European System of Central Banks. The Bank continued to revise and amend its regulations to ensure that its monetary policy framework is fully compatible with the relevant requirements adopted by the European Central Bank.

The operational standards and procedures of the Bank of Latvia mostly comply with those of the European Central Bank. The Real Time Gross Settlement System (SAMS) introduced in September 2000 is compatible with the TARGET system operating in the ESCB.

In accordance with Article 105 of the Maastricht Treaty and ECB requirements, amendments to the law "*On the Bank of Latvia*" were adopted by the Parliament on 25 October 2001. These amendments introduce payments system oversight as a legal responsibility of the Bank of Latvia, define the Bank of Latvia as the institution organising and ensuring the operation of the inter-bank payment system in the Republic of Latvia, and entitle the Bank of Latvia to operate in the securities market, including acceptance of private sector securities as collateral.

New amendments to the law "*On the Bank of Latvia*" have been elaborated in order to fully comply with the independence requirements, in particular as regards the grounds for dismissal of the members of the board of the Bank of Latvia. With the adoption of the amendments by the Parliament, the law will be completely in line with the requirements of the Treaty and the Statute of the ESCB and ECB. The amendments were approved by the Government on 14 May 2002 and have been submitted to the Parliament.

In 2001, training of the employees of the Bank of Latvia continued: staff members of the Bank of Latvia participated in various conferences, seminars and meetings with the European Commission (TAIEX), European Central Bank and Central Banks of the European Union. Direct bilateral contacts of the Departments of the Bank of Latvia (in the field of monetary policy, statistics, payment systems, central banking laws, accounting and information systems) with respective counterparts of the European Central Bank increased significantly during the year 2001.

Latvia is currently close to complying with the Maastricht convergence criteria: (1) **public debt** is much lower than Maastricht requirements - 15.0% of GDP in 2001; (2) the **budget deficit** in 2001 was 1.8% of GDP, being below the level defined by the respective Maastricht criterion; (3) annual average **inflation** was 2.5% in 2001; (4) **government bond yield rates**, while still higher (7.8% for 5-year Treasury bonds) than in the Maastricht criteria, show downward trend (8.8% in 2000), and Latvia expects to be able to meet the requirements in the medium-term.

In 2001, Latvia prepared the *Pre-accession economic programme (PEP)* and *Fiscal notification*. This year, the PEP is being updated. Over the last year, certain measures have been undertaken in order to improve quality of the new fiscal notification.

Within the framework of the Phare 1999, a pilot project on government finance statistics and financial accounts was launched in July 2001, providing for important activities on practical aspects of debt and deficit statistics. A short training session on debt and deficit statistics was held in France in May 2002. Within the framework of the Phare 2000, a pilot project on financial accounts and public finance statistics was launched in 2002. Transmission of the deficit and debt notification in accordance with ESA 95, analysis and assessment of the quality of data will take place in April 2003.

12. Statistics

Since the last Regular Report Latvia has continued to make considerable progress in the area of statistics and improved statistical infrastructure in compliance with the EU statistical requirements. In 2002 the budget of the Central Statistical Bureau (CSB) of Latvia and its 27 regional offices has been significantly increased. The statistical infrastructure is improved both in terms of further compliance with the *acquis*, as well as in terms of wider co-operation with more than 80 various registers, databases and information systems maintained by other state agencies.

The economic **classifications** in Latvia are fully in line with the *acquis*. During 2001, translation of the final version of Statistical classification of economic activities in the European Community NACE Rev.1.1 (Regulation 29/2002) was completed and the harmonization of terms is in progress. The revised classification NACE Rev.1.1 as well as Statistical classification of products by activity in the European Economic Community CPA-2002 (Regulation 204/2002) will be operational in Latvia as of 1 January 2003.

As regards availability of statistics at the **regional level**, the country is subdivided into 5 statistical regions compatible with NUTS III level. After the conduct of the Population Census in 2000 and the Agriculture Census in 2001, the CSB collects all the required information on regional and local level according to the *acquis*.

Macro-economic statistics - In 2001 the verification methods of primary data were improved. In co-operation with OECD a common publication "Quarterly national accounts in the Baltic States" was prepared where data sources and calculation methods were described.

CSB started to publish the **quarterly GDP** on the 80th day after the reference period instead of the 120th day as well as seasonally adjusted graphs on time series of quarterly GDP in the quarterly bulletin "Macroeconomic indicators of Latvia".

In **trade in goods** statistics the preparation for *Intrastat* has started. The new customs data control programmes were developed. The CSB has prepared a detailed timetable for *Intrastat* implementation activities. An agreement will be signed between the CSB and the SRS by September 2002 clearly allocating the tasks in implementation of *Intrastat*. By August 2002 the CSB will define the prototype of the register of the intra-community trade operators, make threshold studies and create an organization chart of *Intrastat*.

Demographic and social statistics - In April 2002 the main Population Census 2000 publication – the collection of statistical data "Results of the 2000 Population and Housing Census in Latvia" was published in Latvian and English.

The Labour Force Survey (LFS) was supplemented with an *ad hoc* module on length and patterns of working time according to EU requirements. To reach full compliance with the EU requirements a **continuous LFS** started in January 2002. The **Labour Cost survey** was carried out in compliance with EU requirements.

In 2001 the Continuing Vocational Training Survey (CVTS) was completed. In 2001 the preparations started for a Lifelong Learning (LLL) survey and the questionnaire on home and leisure accidents during the pilot survey was tested.

Business statistics - In 2001 for the first time a data collection "Energy Balance 2000" providing statistical indicators for the years 1996–2000 was published. The data characterize consumption of the most important energy resources in Latvia as well as consumption by kind of activity.

In the field of Information Society statistics a sample survey of the computerisation level of enterprises was conducted in 2001. This survey included enterprises representing all sectors of the national economy and all regions of Latvia.

A survey of the real estate market was conducted on the size of market, prices and their dependence on the supply with public utilities and building materials used.

The quality and timeliness of **transport** statistical data were improved. The data collection on rail transport started according to NST/R classification.

In the area of **tourism** statistics the work on making Tourism Satellite accounts was started and the survey of persons crossing the border was continued.

In 2001 the **Agricultural Census** was carried out and very extensive information was obtained that will be a base for future data quality improvement and updating of the Farm Register.

The pilot project for Candidate Countries on agro-monetary statistics that ended in July 2001 resulted in more complete knowledge on methodology and practice, and inter-institutional co-operation improved reasonably.

From January 2001 to August 2002 the CSB is participating in the EUROSTAT Pilot Project "Preparatory work for harmonized Farm Structure Surveys (FSS) including Farm registers" and the Ministry of Agriculture in the project "Development of supply-balance sheets according to Eurostat methodology".

In 2002 the budget of the CSB and its 27 regional offices has been increased by 37.8%, reaching LVL 2 037 149.

Within a Twinning Project with Finland work has been started on elaborating the CSB Strategic development plan for 2003-2005. The plan will be finalised by the end of 2002.

In 2001, permanent training was provided to almost all employees of the CSB: (1) 126 persons from the central office (671 days on 45 different themes) and 36 persons from regional offices (123 days on 15 different themes) attended courses of the Latvian School of Public Administration; (2) 12 employees attended 8 Training of European Statisticians courses within the Phare Multi-beneficiary Statistical Co-operation programme; (3) 117 employees participated in 102 Eurostat working group, committee and task force meetings.

13. Social Policy and Employment

The transposition of the *acquis* in the field of social policy and employment is almost completed with the adoption of the law “*On Protection of Employees in the Event of Insolvency of Their Employer*” in December 2001. The main efforts to upgrade the administrative capacity in this area included the training of employees of the State Labour Inspectorate and State Employment Service, as well as preparation for management of the European Social Fund.

The Saeima adopted the new “*Labour Law*”, transposing the majority of the labour law *acquis* in June 2001. The Law came into force on 1 June 2002.

On 20 December 2001, the Saeima adopted the law “*On Protection of Employees in the Event of the Insolvency of Their Employer*” transposing Directive 80/987/EEC. The Law will come into force on 1 January 2003.

In order to transpose Directive 94/33/EC, the Government adopted the Regulation “*The Jobs Permitted for Employment of Children from the Age of 13 Years*” on 8 January 2002, the Regulation “*The Jobs Forbidden for Employment of Adolescents and Exceptions when Employment is Connected with Adolescents' Professional Training*” and the Regulation “*Order how Permissions are Handed Out to Children for Performing in Cultural, Art, Sport and Advertisement Activities, and Restrictions Included in the Permissions*” on 28 May 2002. The Regulations came into force on June 2002.

The State agency - Insolvency Administration is functioning from February 2002. The Administration has the function of the guarantee institution as well as supervising of insolvency processes.

In 2002 training on the new “*Labour Law*” for 14 trainers of the State Labour Inspectorate, as well as training of judges was organised.

Concerning **equality of treatment for women and men**, following the adoption of the “*Concept on Gender Equality*” in October 2001, the Government adopted on 12 March 2002 an Action Plan for implementation of the Concept in the year 2002. The Action plan foresees the elaboration of the *National Gender Equality Strategy 2003-2007*.

The Gender Equality Council was established on 19 February 2002 as the advisory institution chaired by the Minister of Welfare. Senior officials of the Ministry of Economy, the Ministry of Justice, the Ministry of Science and Education, the Ministry of Finance, the Ministry of Welfare, the State Human Rights Bureau, NGOs and research institutions are represented in the Council. The Council promotes implementation of the gender equality policy at all levels of public administration, coordinates development, implementation and updating of gender equality promotion programmes, analyses implementation of gender policy, prepares recommendations on policy development, and promotes cooperation among public, municipal institutions and NGOs. An inter-ministerial working group has been set up. A training programme for civil servants on gender equality issues was developed in early 2002.

Last year one case on the principle of gender equality was brought to court. The claimant (a woman) prosecuted against the prison administration for being refused the position of prison guard because of being a woman. The Court confirmed the fact of gender discrimination.

A number of regulations have been adopted in the field of **occupational health and safety**. The new "*Labour Protection Law*", transposing the framework directive on health and safety at work, came into force on 1 January 2002.

The Regulation "*Procedure for Performance of Internal Supervision of Work Environment*" (23 August 2001) transposing Directives 89/391/EEC and 92/85/EEC came in force on 1 January 2002. The Regulation "*On Labour Protection Requirements when Working with Carcinogenic Substances at Workplaces*" (27 December 2001) ensuring full transposition of Directive 90/394/EEC came into force on 1 January 2002.

The Regulation "*Health and Safety Requirements for Mineral Extracting*" transposing Directives 92/91/EEC and 92/104/EEC was considered by the Committee of the Cabinet of Ministers on 8 April 2002. The Regulation "*Labour Protection Requirements when Coming into Contact with Biological Agents*" transposing Directive 2000/54/EC was accepted by the Government on 21 May 2002 and will come into force by 1 January 2003.

The Regulation on the Protection of Workers Against the Risk Created by Work Environment Noise transposing Directive 86/188/EEC, Regulation concerning the minimum safety and health requirements for work on board fishing vessels and on the minimum safety and health requirements for improved medical treatment on board vessels transposing Directives 93/103/EEC and 92/29/EEC, Regulation on minimum requirements for improving the safety and health protection of workers potentially at risk from explosive atmospheres transposing Directive 1999/92/EC have been elaborated. It is foreseen the regulations will be adopted by the end of 2002 and will come into force by 1 January 2003.

On 28 December 2001 the Saeima adopted the new "*State Labour Inspectorate Law*". The Law is in accordance with the EU principles of occupational health and safety. Several projects are being implemented for improvement of the administrative capacity of the SLI, focusing on safety and health at work, inspection methods and other issues linked to the transposition of the *acquis*. In 2001, the SLI (including its regional offices) had 162 employees, including 121 labour inspectors. The SLI imposed fines on 664 employers to the amount of LVL 24 985. In 2001, 43 employees of the SLI attended 130 training courses covering subjects such as administrative process, elaboration of normative acts, conflicts of interests, client-oriented communication, quality management strategy, etc. In 2001, an internal *Concept on Quality Assurance and Management System in the SLI* was elaborated, stating the objectives and tasks, as well as criteria and structure of the system. The Concept envisages the elaboration of a manual for quality assurance and management system. Implementation of the Concept will be finished in the first half of 2003.

The draft Regulation on the procedure of training occupational safety and health experts and confidants in the field of occupational safety and health has been elaborated. It was decided to develop a unified training system for occupational safety and health and to designate a control mechanism under the auspices of the Ministry of Education and Science. The training programme for occupational safety and health was accepted on 27 March 2002. The professional standards for occupational safety and health experts and senior experts have been elaborated.

The implementation of transposed legislation is being facilitated in the framework of the PHARE Twinning Project "Support to Further Approximation of Legislation and Enhanced Institutional Building for Occupational Safety and Health to Accelerate Pre-accession Activity" (2001-2002). In the framework of the project, training of state labour inspectors is ongoing.

In cooperation with Sweden, information materials on the minimum requirements for safety and health at work with asbestos have been elaborated. 10 labour inspectors, as well as representatives of other institutions, have been trained to identify and assess risk factors. Upon the completion of the project, the staff of SLI will have acquired additional knowledge on risk assessment at workplaces as well as consulting employers on implementation of the Regulation "*The Procedure of Performance of Internal Supervision of Work Environment*". Within a project with Denmark, labour inspectors were trained on the specifics of the construction industry and an informative material on safety and health in construction work has been published. The training programme for labour inspectors, as well as questionnaires for information and control campaigns, were elaborated.

In the framework of the Phare project "Integration into the EU: Law Approximation" guidelines on procedure for internal supervision of the work environment aimed at explaining the requirements of normative acts to employers have been developed. Training of 15 trainers on internal supervision of the work environment and training of 13 trainers on work with chemical agents has been carried out.

The monitoring of the implementation of the *Public Health Strategy* is being carried out by the Public Health Agency. The Action Plan for the implementation of the Strategy is being elaborated. Besides the Ministry of Welfare, other ministries, NGOs and municipalities will be involved in implementation of this strategy. The Public Health Agency was established in January 2002 by reorganising the National Environmental Health Centre (NHEC) to a state agency.

In order to improve the health-monitoring system, to prepare for using the health indicators of the EU, and to prepare for participation in the new public health programme, Latvia participates as an observer in the meetings of the Committee for Community Action Programme on Health Monitoring.

A well-organised system of epidemiological surveillance and control of infectious diseases with clearly defined competence and responsibility of the involved institutions has been developed. The system allows effective monitoring of communicable diseases, as well prompt recognition and response to alerts. The "Action Plan for the Improvement of Epidemiological Surveillance of Acute Diarrhoeal (Intestinal) Diseases in the Country" has been prepared. A computer network for epidemiological surveillance of infectious diseases is being developed. Public Health Agency specialists participate in the development of the Inventory of Resources for Infectious Disease in Europe (*IRIDE*) database.

As regards **social dialogue**, the Saeima considered the draft law "*On Labour Disputes Settlement*" in the 1st reading on 7 March 2002. The draft law covers settlement of both right and interest disputes and envisages introduction of conciliation and voluntary arbitration – types of interest dispute settlement that have not been used so far. 2287 collective agreements were concluded during 2001 covering 203374 employees. A total of 2167 collective agreements were concluded at enterprise level and 17 at branch level. The Latvian Employers Confederation and the Latvian Free Trade Union Confederation have created Internet homepages for better access to information on social partners and social dialogue.

Concerning **employment**, the level of registered unemployment at the end of 2001 was 7.7%. The share of the long-term unemployment decreased, reaching 26.6% at the end of 2001, compared to 29% at the end of 2000. In 2001, 10.1% (6.9% in 2000) of registered unemployed persons were involved in active measures to promote employment (training, courses, temporary public works). 67.8% of those who received special training have found employment afterwards. In July 2001, the State Employment Service launched new pilot projects "Subsidised workplaces for the unemployed of pre-retirement age (disabled unemployed)" and "In-work training for the young unemployed".

To address the issue of regional unemployment, the State Employment Service has appropriate regional structures (28 district offices and 34 local offices). In order to improve information flow between the branch offices, computerisation of the Service is being carried out and development of corporate computer network of the Service has been launched.

The Saeima adopted the law “*On Assistance to Job-Seekers and Unemployed Persons*” on 9 May 2002.

The trend towards increasing wages continues. Average gross monthly wages have increased by 6.5% in 2001 compared to 2000, while net wages have grown by 6.1%. As from 1 July 2001, the minimum wage in the country is LVL 60 (compared to LVL 50 previously) and the minimum tariff rate per hour is LVL 0.355.

The Government took a decision on 5 February 2002 on designation of the main institutions to be involved in Structural Funds management. The Ministry of Finance is designated as the Managing Authority of the Structural Funds, including the **European Social Fund** (ESF). The Ministry of Welfare will be the main partner to the Managing Authority and the State Employment Service is planned to be an Intermediate body for the ESF. The Managing authority's functions that have been delegated to the Ministry of Welfare include the role of the leading partner for the programming of Human Resources Development and Employment Policy, ensuring implementation, monitoring and publicity of ESF activities, as well as the co-ordination of preparatory activities for ESF. The secondary legislation on ESF administration will be adopted by the end of 2003.

For ESF administration and implementation additional employees will be hired in the Ministry of Welfare (6 persons), in the State Employment Service (7 persons), in the Ministry of Education and Science and Vocational Education Development Programme Agency (12 persons), in the Ministry of Economy and the Latvian Development Agency (5 persons). Of those, 2 employees in the Ministry of Welfare and 4 in the State Employment Service are in place since 1 January 2002. The rest should be in place by 2003.

For the implementation of the National Training Plan for the ESF (adopted on 12 March 2001), the National Centre for ESF management training has been set up on the basis of the State School of Public Administration. Since 1999, 277 persons from public administration institutions, municipalities and representatives of social partners have attended seminars on general matters of ESF at local and national level, and 22 persons participated in study visits to Ireland and Finland. Altogether 12 trainers from the State School of Public Administration, 50 employees of line ministries and ESF intermediaries, and 1000 regional and local level employees, and social partners will be trained. 2 persons from the Ministry of Welfare and State Employment Service participated in the Netherlands programme ADEPT 3 week course on Structural Funds in March 2002. 1 person from the Ministry of Welfare participated in the 3-month traineeship on ESF in the European Commission.

As regards **social protection**, the Saeima on 8 November 2001 considered in the 2nd reading the amendments to the law “*On Social Assistance*” providing for the implementation of a united municipal social benefit basing on income testing. The implementation of the guaranteed income level (GMI), replacing the present four municipal social assistance benefits, will start in 2004. The purpose of the new benefit would be to provide support to the poorest families, whilst at the same time not cultivating the dependency of families on social assistance benefits.

On 12 March 2002 the Government accepted the *Concept on the Development of Providing Social Assistance Services*. The concept envisages changes in the financing system of social assistance that would facilitate the development of alternative social care services by municipalities. The financing principle “money follows the client” is implemented in social institutions belonging to municipalities.

On 14 May 2002 the Government accepted the draft law “*On Social Assistance and Social Services*”. The Law sets the principles of social work, social care, providing and receiving of social services, scope of persons eligible for social assistance, as well as principles of financing of social services. The law sets the principles of organisation and administration of social services and assistance, specifying competences of municipalities and the Ministry of Welfare. The law envisages establishment of inspection to control the implementation of the requirements, and sets the rules for reviewing complaints. The law defines aims of social work and basic tasks for the profession of social worker.

Pension reform was completed by launching a state mandatory fully advance-funded pension scheme (2nd pillar) in July 2001. By 4 April 2002 the State Treasury had received 2^d tier contributions worth of LVL 5 132 000. Assets are placed mainly in state securities (89%), earning about 6% annually. The average annual interest rate for the deposit portfolio is about 5%.

Indicators of performance (04. 04. 2002)	
2 nd tier assets in total:	LVL 5 338 000
<i>Investment portfolio:</i>	
Latvian state securities	LVL 4 736 000
Term deposits with the banks	LVL 381 000
Correspondent account	LVL 221 000
Average interest rate	5,4%
Number of participants	~280
In percent from total number of social insurance contributors	27 %

Total expenditure for social security (social insurance and social assistance, including schemes with the characteristics of social security) in 2001 was LVL 577,6 million (12,1% of GDP).

The legislation largely complies with the *acquis* on **anti-discrimination**. For further implementation of the *acquis*, an inter-institutional working group was established in February 2002 in order to set the division of responsibilities for anti-discrimination policy in Latvia. The working group makes detailed screening of legislation with the aim to evaluate its alignment to Directives 2000/43 and 2000/78.

14. Energy

The process of legal alignment in the field of energy has continued. Important progress has been achieved in providing the legal basis for security stocks and oil supply crisis management. The policy towards the internal energy market follows the EU approach. The Government has decided on the gas market liberalization. The regulatory body is fully operational.

The “*Concept on Formation of the State Oil Product Reserve*” was adopted on 14 August 2001 providing the basis for government policy concerning minimum **oil stocks and oil supply crisis management**. The Concept obliges entrepreneurs to create and maintain 60 days oil product stock and the State 30 days stock by 31 December 2009.

Adoption of legislation providing for implementation of the Concept has been completed. Thereby, the *acquis* concerning establishment of oil product reserves has been transposed into Latvian legislation, allowing to implement Directive 68/414, amended by Directive 98/9, except for provisions regarding formation of oil and oil product stocks equal to 90 days consumption, which will be implemented by 31 December 2009. The Regulation “*On Procedure of Formation and Maintenance of Oil Product Stocks*” was adopted by the Government on 26 March 2002.

According to the Regulation, the entrepreneurs have to gradually create oil stocks for 60 days by 31 December 2009. As the first step, oils stocks for 23 days will be created by 1 July 2003.

The Regulation "*On the Energy Information System*" was adopted by the Government on 28 May 2002. It obliges the Ministry of Economy to establish an energy data basis in order to ensure balanced energy consumption and demand, planning and management of energy crisis prevention, and diminish the harmful effects of an energy crisis. The Energy Information System will allow annual calculation of Latvia's stockholding obligation. The Regulation will come into force on 1 January 2003.

The Regulation "*On the Procedure of Energy Supply and Realization for Consumers During Announced Energy Crisis*" was adopted by the Government on 12 March 2002 fully transposing Directive 73/238. The Regulation defines restrictions on energy consumption to be applied in the event of an announced energy crisis. The groups of energy users are prioritised in the Regulation to ensure that the most needy groups are supplied in the event of energy crisis.

The State Revenue Service supervises fulfilment of oil stock obligations. The Office of Excise Goods of the State Revenue Service is responsible for accounting, identification and verification of the oil stocks on the basis of the monthly reports of enterprises. There are 2 employees in the Office of Excise Goods involved in supervision of the oil stocks. On the basis of the data provided by the State Revenue Service, the Ministry of Economics will prepare monthly reports on the level of oil stocks. The first monthly report on the level of oil stocks according to the requirements of the Directive 68/414/EEC is being prepared by the Energy Department of the Ministry of Economy for submission to the European Commission in June 2002. The budgetary allocation of LVL 9 778 is planned in the budget of 2003 for the recruitment of 2 additional employees in the Energy Department of the Ministry of Economy to ensure due preparation of reports.

LVL 42 166 has been requested in the state budget of 2003 for the creation of the Energy Information System. According to the Regulation "*On the Procedure of Energy Supply and Realization for Consumers During Announced Energy Crisis*", the State Energy Crisis Centre will be established as a temporary inter-institutional body for crisis management during announced energy crisis. "*The Statute of the State Energy Crisis Centre*" was adopted by the Government on 29 January 2002 defining the competencies and structure of the Centre. The Government Order with the list of members of the Centre has been submitted for inter-ministerial consultation. The Centre will include representatives of ministries and the largest enterprises. The Energy Department of the Ministry of Economy will perform the functions of the Secretariat of the State Energy Crisis Centre within its existing capacities.

In the area of **competitiveness and internal energy market**, the "*Energy Policy in the Electricity Sector*" aiming at ensuring the reliability and quality of electricity supply and creating competition in the electricity market was approved by the Government on 11 September 2001. According to the policy document, electricity transmission and distribution will be subject to regulation. Power production, sales and purchase will be deregulated to provide consumers with the possibility to choose the energy supplier. Further electricity market liberalisation is being investigated within the Phare project "*Energy Sector Restructuring for Republic of Latvia*".

The Public Utilities Commission is operational since 1 September 2001, taking over, *inter alia*, the function of the Energy Regulation Council from 1 October 2001. It is responsible for the licensing of energy companies and elaborating methodologies for tariff calculation, as well as approval of tariffs calculated by energy supply companies. The Commission also bears responsibility for preliminary settlement of disputes out-of-court. (see also Chapter 2. *The existence of functioning market economy*)

LVL 1 million was assigned in the 2002 budget to ensure operation of the Public Utilities Commission. The revenues for financing the Public Utilities Commission are generated through state fees from regulated enterprises.

Energy issues are dealt with by the Energy Department and the Division for Legal Provisions for Energy Regulation of the Legal Department. There are 9 employees in the Energy Department, 7 of whom were transferred from the Energy Regulation Council. 6 vacant positions will be filled by August 2002. The Division for Legal Provisions for Energy Regulation of the Legal Department has 2 experts and 1 vacant position.

Employees of the Public Utilities Commission undergo regular training. They have participated in 11 seminars regarding regulatory issues and 8 conferences, the European gas and electricity regulatory authorities forums, forums of energy Regulatory authorities and transmission systems operators of the Baltic States, Nordic and Baltic regulatory authority meetings. In order to gain deepened knowledge, 2 employees participated in the training course "Public utilities regulation and strategy" organized by the US Public Utilities Research Centre and the World Bank.

As regards the **electricity market**, the restructuring of the JSC "Latvenergo" is ongoing. A separate legal entity - the Transmission System Operator JSC "High Voltage Network" was registered in the Register of Enterprises on 28 December 2001. The package of rental agreements of assets with the mother company "Latvenergo", power producers and other structures has been concluded. The application for a transmission license for the new Transmission System Operator has been submitted to the Public Utilities Commission. .

In order to achieve the required level of price transparency and to eliminate possible cross-subsidies, an independent Distribution System Operator will be established by the end of 2002. Proposals on establishing an independent distribution company were submitted by "Latvenergo" to the Ministry of Economy on 9 May 2002.

New methodologies for calculation of tariffs for electricity generation, transmission, distribution, and sale will be defined by the Public Utilities Commission by the end of 2002. Until approval of the new tariffs for transmission and distribution services, the existing tariffs approved by the Energy Regulation Council in December 2000 are in force.

On 9 May 2002 *Latvenergo* submitted to the Ministry of Economy proposals on establishing 2 power generation companies.

The electricity market is being opened gradually. The threshold for the status of qualified eligible customer is currently set at 40 GWh of annual electricity consumption. The threshold consumption of qualified electricity consumers will be reduced to 20 GWh per annum from 1 January 2003, ensuring that the electricity market opens by up to 20 %.

Within the framework of the Common Baltic Electricity Market, efforts are undertaken to approximate of market access rules in individual countries and harmonize the transmission tariffs. According to the joint declaration adopted by the Prime Ministers of the three Baltic States on 9 July 2001, the creation of the necessary conditions for the Common Baltic Electricity Market are envisaged at the end of 2002.

With regard to the **gas market**, the "Gas Market Liberalization Concept" was approved by the Government on 23 October 2001. It is based on the assumption that after accession to the EU Latvia will be granted the derogation provided by Article 26 (1) of the Directive 98/30/EC. Meanwhile, the Concept envisages to introduce the legal preconditions for third party access and designation of eligible customers. It foresees continued regulation of transmission, distribution and storage tariffs, but discontinued regulation of the sales price of natural gas. According to the Concept, the existing, but not essential price distortions between the groups of consumers will be eliminated. The Action Plan ensuring implementation of the Concept was approved by the Government on 30 October 2001.

According to the Action Plan, the amendments to the *"The Energy Law"* were submitted to the Government on 13 May 2002. The amendments will provide the legal basis for third party access and establishment of eligible customers according to the Directive 98/30/EC. They define obligations and responsibilities of the transmission and distribution systems operators. According to the amendments, the transmission system operator is obliged to ensure gas transmission, distribution and storage tariffs. The qualified customers are entitled to choose their gas supplier. The Regulations *"Requirements to Obtain the Status of Eligible Consumer of Natural Gas"* will be elaborated within 6 months of adoption of amendments to *"The Energy Law"* by the Saeima.

The Public Utilities Commission will prepare by the end of 2002 the natural gas pricing methodology, including the methodology for calculation of tariffs of transmission, distribution and storage services.

The privatization of the JSC *"Latvijas Gaze"* was completed in February 2002. The last 3% of the state owned shares were sold through public offering to the general public for privatization vouchers. The major shareholders of *"Latvijas Gaze"* are Ruhrgas Energie Beteiligungs AG (27.0%), OAO Gazprom (25.0%), SIA Itera-Latvija (25.0%) and E.ON Energie AG (18.0%).

The first bidding round on the **prospecting of hydrocarbons** in Latvian territorial waters has been completed. The licence on prospecting of hydrocarbons in Latvian territorial waters was issued to the Norwegian Company *"TGS Nopec Geophysical Company ASA"* on 3 April 2002. The second licensing round on prospecting of hydrocarbons in Latvia's offshore area was announced on 20 May 2002. The first licensing round on exploration and production of hydrocarbons in Latvia's offshore area in the Baltic Sea was repeatedly announced on 26 April 2002.

The Concept *"Hydrocarbon prospecting, exploration and production onshore"* was adopted by the Government on 15 August 2001. On the basis of the Concept the Regulation will be elaborated by the end of 2002.

The institutional structure for the implementation of hydrocarbon prospecting, exploration and production is in place. The Oil and Gas Industry Division of the Ministry of Economy is responsible for organising tenders for licences of hydrocarbon prospecting, exploration and production. It also issues licences and supervises hydrocarbon prospecting, exploration and production. There are 3 employees in the Oil and Gas Industry Division.

The Petroleum Recourse Center is operational since June 2001. It is responsible for the management of the state share in the exploration and production of hydrocarbons. There are 4 employees in the Petroleum Resource Center who are being regularly trained. In December 2001 a 2-day training course on licensing procedures was presented by the Norwegian Petroleum Directorate, and from December to March 2 employees improved their knowledge of English at language classes.

To ensure **energy efficiency** in buildings, the *"Regulation on the Latvian Building Standard LBN 002-01 "Tremotehnics of the Envelope Structures of Buildings"* was adopted on 11 November 2001 according to the Directive 93/76/EEC. To ensure energy certification, the Latvian State Standard *"Energy Audit of Buildings"* is under elaboration.

The State Energy Inspectorate is operational since November 2001, ensuring energy efficiency control and supervision. *"The Statute of the State Energy Inspectorate"* was adopted by the Ministry of Economy on 20 May, 2002.

LVL 52 700 were allocated for the State Energy Inspectorate in the state budget for 2002. An allocation of LVL 82 500 has been requested for the State Energy Inspectorate in the budget of 2003. At present there are 7 employees in the State Energy Inspectorate. 5 vacancies will be filled by the end of 2002.

To promote use of **renewable energy** sources and domestic production in Combined Heat and Power Plants, on 8 January 2002 the Government adopted the Regulation “*On Requirements to Co-generation Plants and Order for Determination the Purchase Price of Surplus Generated Electricity*” and on 15 January 2002 the Regulation “*On Determination of Amount of Generation Capacity for Production of Electricity from Renewable Sources*” and the Order “*On Determination of Amount of Generation Capacity in Year 2002 for Production of Electricity from Renewable Sources*”. In accordance with these Regulations the Public Utilities Commission will set the tariffs for some types of electricity produced from renewable energy recourses and Combined Heat and Power Plants over 4MW. The methodology of tariff setting for electricity produced in Combined Heat and Power Plants with installed capacity over 4MW will be elaborated by the end of 2002.

A package of legislation has been adopted to transpose legislation in the field of **nuclear energy** and radiation safety (see also chapter 20. *Environment*).

In order to implement EU Council recommendations contained in the report “Nuclear Safety in the Context of Enlargement”, the Government has adopted Regulations “*Requirements for Practices Involving Radioactive Waste and Related Materials*” (19 March 2002) and “*Criteria and Principles for Establishment of Equivalence for Radioactive Waste*” (16 April 2002). The Regulation “*On Accountancy and Control System of Nuclear Materials*” has been prepared.

To ensure adequate financial resources to support safety of facilities for spent fuel and radioactive waste management during their operational lifetime and for decommissioning, amendments to the law “*On Natural Resources Tax*” were adopted by the Saeima on 20 December 2001. The amendments envisage creation of Import Tax for import of radioactive substances, which during their use may create radioactive waste. The amendments will come into force on 1 July 2002. The Regulation providing the order for implementation of the amendments is being elaborated.

Preparations for decommissioning of the Salaspils Nuclear Reactor are ongoing. The tender procedures were completed on 13 May 2002 on the rights to prepare tender documentation and organize the tender on closure and dismantling of the Salaspils Nuclear Reactor. As a result of the tender, the contract will be signed with the company *Babcock Noell Nuclear GmbH*. The preparation of tender documentation will be completed by December 2002.

The Radiation Safety Centre, which is responsible for the supervision and control of radiation safety, is operational since 1 June 2001. LVL 184 439 were assigned in the state budget in 2002 to ensure operation of the Centre. An allocation of LVL 210 00 is planned in the budget of 2003 for the Radiation Safety Centre. The Centre has 30 full-time employees and 1 vacancy, which will be filled by July 2002. The Radiation Safety Centre completed 179 man-days of educational and training activities in 2001.

15. Industrial Policy

Latvia's industrial policy is in line with the principles of EC industrial policy – market based, stable and predictable.

In 2001, 14.9 % of Latvia's GDP was generated by manufacturing. The growth tendencies in the manufacturing sectors continued in 2001 with a dynamic increase of manufacturing outputs. In 2001, outputs rose by 9.2 % over the preceding year. The most notable growth was registered in the chemical industry (29 %), other non-metal mineral production (31.4 %) and metal production and metal processing (22.9 %). Accumulated foreign direct investments in manufacturing at the end of 2001 reached LVL 240 million. In 2001, the manufacturing sector attracted 17 % of the total FDI stock. Most of the foreign direct investments were made in the food sector, wood sector and metal production.

Mass privatisation was completed in mid 1998. As a result of implementation of the privatisation programme, in 2001 the private sector accounted for 69 % of the GDP, and 72 % of the workforce was employed in the private sector. In 2001 and in the beginning of 2002 the privatisation process of the remaining large state owned enterprises continued (see also chapter *Economic criteria*).

Industrial Development Guidelines of Latvia, accepted by the Government on 20 March 2001, are the framework industrial policy document. In order to implement the guidelines, the *National Innovation Programme* and Action plan were elaborated by the Ministry of Economy and will be adopted by the Government by September 2002. The *National Innovation Programme* was elaborated in line with the principles reflected in the Commission's communication "*Innovation in a knowledge-driven economy*". The Action plan envisages actions to support transnational technology transfer, development of innovation support infrastructure (technological parks, centres, business incubators, contacts with universities and research laboratories), development and practical implementation of an entrepreneurship oriented curriculum for primary, secondary and tertiary education.

Prior to the elaboration of the *National Innovation Programme*, research was undertaken in order to analyse Latvia's innovation system. The research included an overview of innovative entrepreneurship fostering infrastructure, audit of innovative entrepreneurship, analysis of state and private financing for research and of the legislation concerning the innovation system.

Since 2000, Latvia's industrial policy is increasingly focusing on industrial clusters development as an efficient instrument to enhance industrial competitiveness, to deliver focussed state support and to improve the dialogue between state and industry. During the last year particular attention was paid to the support of priority sectors identified in the *Industrial Development Guidelines*. Within the Phare project "*Support to Industrial Cluster Restructuring*" (completed in October 2001) consultative support was provided to four potential industrial clusters – Information systems, Forestry, Composite materials and Engineering. The consultative support was focused on identification of the development strategies for the selected clusters, promotion of mutual co-operation and dialogue between organisations and institutions relevant for individual clusters. After the completion of the project, activities and co-operation schemes initiated within the project were continued. The Forestry cluster, IT cluster, Engineering cluster and High-tech cluster are considered as the priority areas where Latvia has good opportunities to strengthen its competitiveness. The Ministry of Economy and the Latvian Development Agency are playing the key role in the promotion of cluster activities.

The Ministry of Economy is the central body responsible for the formulation and co-ordination of industrial policy in Latvia. The line ministries that are responsible for managing specific industrial branches take part in the policy-making process. In 2001-2002, Latvia continued development of the structured dialogue between the private and public sectors. The Ministry of Economy has a well-established relationship with sectoral Expert Councils, the National Economy Council and associations of different industrial branches (Association of Information Technologies and Telecommunications, Association of Mechanical Engineering and Metalworking Industries, Association of Light Industry Enterprises, Association of Electrotechnics and Electronic Industry etc.).

Constructive dialogue has been continued with the Foreign Investors' Council in Latvia (FICIL), resulting in implementation of the *Action Plan to Improve the Business Environment in Latvia*. A recent positive development has been the integration of dialogue between the Government, foreign investors and national businesses, represented through the National Economy Council. The secretariats of the FICIL and the National Economy Council have been merged under the auspices of the Latvian Development Agency.

Significant support for industrial policy consolidation and implementation was provided within the framework of the Twinning project "*Integration into EU: Law approximation: Industrial*

Policy”, which ended on April 2002. 15 seminars and workshops were held in the framework of the project in order to support elaboration of the *National Innovation Programme* and *National Programme for SME Development*.

16. Small and Medium-sized Undertakings

Small and medium-sized enterprises (SME's) account for 99% of the enterprise population in Latvia, employ more than 70% of the total workforce and create about 65% of GDP. In 2001, 40 255 SME's were operating in Latvia. In 2001 there were approximately 17 active enterprises per 1000 residents in Latvia. The share of the SME's in the total number of active enterprises in Latvia is similar to that of the EU Member States. 78% of the active SME's are micro-businesses, 18% are small businesses, and 4% are medium-sized enterprises. The majority of the SME's are engaged in services (half of them in retail trade).

Latvia's policy towards SME's follows the EU approach and the basic infrastructure to implement SME policy is in place. On 16 April 2002 the Government endorsed the European Charter for Small Businesses, which constitutes a key EU policy document focusing on the needs of small companies. Latvia has already participated in the 3^d Multi-Annual Programme for SME's and is ready to join the Multi-annual Programme for Enterprise and Entrepreneurship of the European Community.

The key document for the support of the SME's has been the *National Programme for SME development 1997-2001*. The new *National Programme for SME development 2002-2006* will be elaborated by July 2002. The goal of the new programme is to ensure that the business environment is favourable for small business growth, as well as to target government resources more effectively to promote competitiveness and growth of the SME's. All the principles set in the European Charter for Small Businesses will be incorporated in the new national programme. Within the new programme particular attention will be paid to the access to financial resources and information, improvement of business environment and development of entrepreneurial skills. An allocation of LVL 3,6 million from the state budget in 2003 is planned for the implementation of the *National Programme for SME Development 2002-2006*. In order to ensure the transition between the two programmes, an Action Plan for the years 2001-2002 is being implemented.

The “*Commercial Law*” came into force on January 2002, marking a fundamental reform of the business environment. The new law contributes considerably to the improvement of the investment environment in Latvia (see also chapter 5. *Company Law*).

To align the SME definition with the Commission Recommendation 96/280/EC, a precise definition has been incorporated in the draft “*State Aid Control Law*” (see also chapter 6. *Competition policy*). The law will provide for separation of the micro enterprises (fewer than 10 employees, annual turnover not exceeding LVL 0.5 million or annual balance-sheet total not exceeding LVL 0.4 million). According to the draft law, enterprises should also satisfy the “independence” criterion - less than 25% of equity capital or voting rights may belong to one company or jointly to several companies that do not correspond to the definition of an SME.

The Government has already reduced and is planning further reduction of tax burdens on businesses. The law “*On Corporate Income Tax*” stipulates tax exemptions for small and medium-sized enterprises to the amount of 20% of the calculated income tax. Moreover, the amendments to the law “*On Corporate Income Tax*” that came into force on 1 January 2002 foresee gradual reduction of the corporate tax rate from 25% to 15% (22% in 2002, 19% in 2003, and 15% in 2004).

Reorganisation of business support funds was started in 2001. A number of proposals on improvement of the state support system for entrepreneurship have been elaborated. Proposals

comprise schemes for implementation of targeted entrepreneurship support policy – establishment of an Entrepreneurship State Support Advisory Board, consolidation of existing state support programmes for entrepreneurship in a new Entrepreneurship Support Fund, improvement of the guarantee system. The Government will decide on these proposals by July 2002.

The *Mortgage and Land Bank of Latvia* (MLBL) is well positioned in the institutional structure of business support. Pursuant to the MLBL development concept, the bank will be transformed into a development bank by 2005. During the years 2000-2002 the Government has issued guarantees to the amount of LVL 10 million for the MLBL for the implementation of the loan schemes for start-ups and SME's. Since 2000, 375 projects have been financed within this programme, ensuring creation of approximately 912 new workplaces. In July 2001 the MLBL started the second phase of the crediting programme of SME's, offering credits with lower interest rates and easier pledge requirements. Special target loans were introduced, i.a., for small and medium sized enterprises owned by women, managed by women, small and medium-sized enterprises situated in the least favoured areas, and grass-root businesses operating less than two years.

To improve the performance of the *Latvian Guarantee Agency* (LGA), a new scheme of LGA financing has been elaborated and is currently under discussion with the European Commission, since the Commission possesses about 45% of the Guarantee Fund of the LGA. A decision to close down the *Latvijas Eksportkredits* (Latvia's Export Credit) was passed in October 2001. The capital parts of the LGA belonging to Latvia's Export Credit have been transferred for holding to the Ministry of Economy.

To continue the improvement of the business environment in Latvia, the *Action Plan to Improve the Business Environment in Latvia* is in force for the third year (since 1999). The Action Plan is being revised and updated on a regular basis following the recommendations of the Foreign Investors' Council in Latvia (FICIL) and various business associations. As a result of the Action Plan, customs procedures have been simplified; an appeals body has been established in the State Revenue Service; draft tax legislation has been made available for public comment.

17. Science and Research

In the field of science and research, efforts continued to focus on the implementation of the Fifth Framework Programme and progress was made at the strategic level.

On 14 November 2001 the Government adopted *Priority Directions of Science for Financing of Fundamental and Applied Research for the Period 2002 to 2005*. The priorities are information technologies, organic synthesis and bio-medicine, material sciences, forestry science and wood technologies. The draft *Guidelines for the Development of Higher Education, Science and Technologies (for the period until 2010)* were adopted by the Ministry of Education and Science in March 2002. The Guidelines foresee, inter alia an increase in the role of science in higher educational establishments, development of academic and scientific personnel, as well as promotion of the development of science, technologies and innovation. The *Programme for Renewal of Scientific and Academic Staff* has been further developed and incorporated in the *Concept on Education Development for the Years 2002 - 2005*.

The *National Innovation Programme* in line with the principles reflected in the Communication from the European Commission "Innovation in a Knowledge-driven Economy" is under elaboration and will be adopted by September 2002. Prior to the elaboration of the Programme, an innovation system analysis was accomplished.

In 2002 the financing from the state budget for the Science programme is LVL 8 900 000. In the year 2003 financing to the amount of LVL 11 700 000 is foreseen.

Latvia continued to be fully associated with the Fifth Framework Programme. In the year 2001 more than 100 projects were approved. The funding of the projects is approximately EUR 9 000 000.

The institutional framework for participation in the Fifth Framework Programme is well established. The link between research and industrial and SME policy is ensured with the involvement of the Technology Centres.

18. Education and Training

In the sector of education and training the legislation is already in line with the *acquis*. The funds for participation in Community programmes for the next year have been allocated and national structures to ensure participation in the programmes are functioning.

The *Concept on Development of Education for the Years 2002 - 2005* was accepted by the Committee of the Cabinet of Ministers on 22 April 2002. The Concept defines the main development areas: increasing both quality of education and effective use of resources, as well as ensuring access to education and institutional development.

To continue educator remuneration reform, LVL 4 940 000 have been allocated for the year 2002 and LVL 4 360 000 are planned for the year 2003 in order to finalise the reform.

On 27 February 2002 the Government adopted the *Investment Strategy* of the Ministry of Education and Science for the Years 2003 – 2007.

The administrative capacity of the Ministry of Education and Science has been strengthened. In 2002 18 employees have been trained on European Union issues and a further 17 will be trained by September 2002.

In the framework of the co-operation project with the European Training Foundation, Denmark and Finland, “Reshaping the Focus and Structure of Teacher/Trainer Training in Latvia and Lithuania”, universities gained experience in approaches and methodology in vocational education training. 25 lecturers from 5 universities, 15 school directors and 5 headmasters from vocational educational training establishments have been trained.

The structures to implement EC programmes are in place and are functioning. Information days and seminars on participation in EC programmes for the project applicants and evaluators have been organised. For example, in the framework of the Leonardo da Vinci programme 303 persons have used mobility grants and the implementation of 5 pilot projects is ongoing.

19. Telecommunications and Information Technologies

Most of the *acquis* requirements were transposed in the Latvian legislation with the adoption of the law “*On Telecommunications*”. Full liberalization of the telecommunications market will be achieved in January 2003. Elaboration of the secondary legislation to ensure implementation of the telecommunications *acquis* is ongoing. The regulatory body is fully operational. The legislation ensures full independence of the Public Utilities Commission.

The law “*On Telecommunications*” was adopted by the Saeima on 1 November 2001 transposing the **telecommunications** *acquis*, including provisions on licensing, tariffs, universal service provisions, interconnection, data protection, independent management of the national numbering plan and the frequency spectrum, and number portability. The law provides a legal basis for full liberalization of the telecommunications market from 1 January 2003, when the

exclusive rights that are granted to the national operator JSC *"Lattelekom"* regarding provision of telecommunication services through the fixed network will expire.

The transitional provisions of the law provide for a two year implementation period, during which all necessary secondary legislation will be adopted. The implementation plan has been elaborated to ensure that all the secondary legislation is adopted in due time. The secondary legislation includes both the Government regulations and administrative acts issued by the Public Utilities Commission.

The Government Regulation defining the rules of the use of the radio frequency spectrum and issuing radio frequency usage permits was sent for inter- ministerial co-ordination in April 2002. The rules and procedure for use of the radio frequency spectrum for the commercial activities in telecommunications sector are under elaboration and will be adopted by the Public Utilities Commission by August 2002.

The Public Utilities Commission adopted on 29 May 2002 the following secondary legislation concerning the licensing regime- *"Regulation on Telecommunication Services and Groups of Services which Require Notification (General Permits) and Individual Licences"*, *"Rules and Procedure for Issuance of Individual Licenses for Entrepreneurship in the Telecommunications Sector"* and *"Rules and Procedure for Notification (General Permit) for Entrepreneurship in the Telecommunications Sector"*.

The Public Utilities Commission on 29 May 2002 completed re-registration of licenses and general permits as required by the law *"On Telecommunications"*. The process of preparing the licence for JSC *"Lattelekom"* will be completed by July 2002.

The Public Utilities Commission approved on 16 May 2002 the *"Regulation on Determining Telecommunication Undertakings with Significant Market Power"*. According to the Regulation, telecommunication undertaking or group of undertakings is defined as having significant market power if it has at least 25% of the relevant market. In addition, a number of other criteria are defined for assessment of the existence of significant market power, for example, turnover relative to the size of the market, and the access of telecommunication undertaking to financial resources. The obligations for undertakings with significant market power will be defined by the end 2002.

The Regulation *"On the National Numbering Plan"* determining the order for usage and non-discriminatory allocation of numbering resources is under elaboration and will be adopted by the Government by the end of 2002. According to the Regulation, the Public Utilities Commission will approve detailed provisions on the numbering plan by the end of 2002.

The Public Utilities Commission submitted for public hearing the methodology for tariff calculation on 16 May 2002. It will be adopted by July 2002. The procedure for tariff allocation will be defined by the end of 2002. The tariffs elaborated according to the cost calculation and cost allocation methodology will be approved by the end of 2002.

The general principles of the universal telecommunications service and operation of the Universal Services Fund is being elaborated and will be adopted by the Government by July 2002. The scope of the universal service will be defined by the Public Utilities Commission by the end of 2002. The procedure of financing the universal telecommunication service and compensation of operators for provision of the universal telecommunications service will be defined by June 2003.

The Regulation defining the procedure on the access of law enforcement agencies to the personal data of subscribers has been sent for inter- ministerial co-ordination.

The dispute settlement procedure was defined by the Public Utilities Commission on 6 March 2002.

A contract was signed with the *National Economic Research Associates Ltd.* on 2 April 2002 on organization of the tender for the rights to operate the third mobile phone license in the UMTS standards and GSM 1 800 standards. The tender will be completed in October 2002.

As regards the **regulatory framework**, the Public Utilities Commission is operational since 1 September 2001. It took over, *inter alia*, the regulatory functions from the Telecommunication Tariff Council and the Telecommunications Department of the Ministry of Transport on 1 October 2002. The structural and functional independence of the Public Utilities Commission is ensured according to the provisions of the law "*On Regulators of Public Services*". It is legally and functionally independent from network operators, service and equipment providers. The Commission fulfills regulatory functions in the field of telecommunications, including approval of tariff- structures, issuing licenses, establishing rules and supervising interconnection and special access. It sets the order for local loop unbundling. It is responsible for monitoring the fulfilment of Universal Service Obligations. The Public Utilities Commission protects consumer interests and promotes competition. (see also chapter 2. *The existence of functioning market economy*)

LVL 1 million was assigned in the 2002 budget to ensure operation of the Public Utilities Commission. The revenues for financing the Public Utilities Commission are generated through state fees from regulated enterprises.

Recruitment of the staff of the Public Utilities Commission dealing with the telecommunications issues is basically completed. The Telecommunications and Postal Department and the Division for Legal Provisions for Telecommunications and Postal Regulation of the Legal Department ensure basic regulatory functions in the field of telecommunications. There are 16 employees in the Telecommunications and Postal Department, including the Director. One vacant position will be filled in June, 2002. The Division for Legal Provisions for Telecommunications and Postal Regulation of the Legal Department has 2 employees and 1 vacant position.

The Public Utilities Commission employs 2 persons dealing with postal issues from the Telecommunications and Postal Department and the Legal Department.

To strengthen the administrative capacity of the Public Utilities Commission, technical assistance and training are being provided by the World Bank. The Public Utilities Commission is involved in the project "Strengthening the Latvian multi-sector utility regulator. Twinning and training in the telecommunications and post sectors" financed by the Swedish International Development Cooperation Agency.

Legislation in the area of **postal services** is broadly in line with the *acquis*. Amendments to the "*Postal Law*" are being elaborated and will be adopted by the end of 2002 transposing the *acquis* on the licencing regime and Universal Service Obligation. The Ministry of Transport will issue the Standards of Universal Postal Service by 1 September 2002. The Government Regulation defining the scope of reserved area according to the EU threshold is being elaborated and will be adopted by the end of 2002. The Public Utilities Commission will determine the methodology for tariff calculation of postal services by the end of 2002. The measurement technology for quality of postal services is being elaborated and will be adopted by the end of 2002. The Public Utilities Commission has launched the measurement of quality of service in the domestic market on a trial basis.

In the field of **information technologies**, the Government accepted on 18 December 2001 the Action Plan for implementation of the "*Concept on Electronic Commerce*". The Action Plan consists of four task-groups: enhancement of infrastructure, establishment of basic rules for e-commerce, building trust through personal data protection, and maximisation of benefits created by the knowledge based economy.

The Regulation implementing Directive 2000/31/EC is being elaborated and will be adopted by October 2002. The Regulation defining the procedure for provision of information in the field of

technical standards and regulations according to the Directive 1998/34/EC is being elaborated and will be adopted by the end of 2002.

The “*Electronic Document Law*” was adopted in the first reading in the Saeima on 25 October 2001. It will define the legal status of an electronic document and a digital signature, transposing Directive 1999/93/EC. The Regulation on the archiving of documented data and electronic documents stored in information systems according to the Recommendation 2000/13 was adopted on 2 April 2002.

The “*State Information Systems Law*” providing a legal framework for operation of the state information systems and co-operation of involved units was adopted by the Saeima on 2 May 2002.

29 projects were financed in the field of information technologies through the State Investment Programme in 2001, accounting for LVL 15.3 million. Priority projects included the State Revenue Service and Customs Information System Project, the Latvian Education Information System Project, the Unified Court Information Processing System and the Unified Municipal Information System.

20. Culture and Audio-visual Policy

Legislation in the **audiovisual** field is mostly in line with the *acquis*. In order to achieve full compliance, draft amendments to the “*Radio and Television Law*” have been submitted to the Government and will be adopted by the end of 2002. Provisions regarding "major events" and proportion of "music to be broadcast" are refined, and reservation of broadcasting time for in-house production will be reduced in terms of "public interest".

The amendments to the “*Administrative Offences Code*” are being drafted providing the National Broadcasting Council with rights to impose penalties to broadcasting organizations for violation of the “*Radio and Television Law*”.

The main institution implementing audiovisual policy in Latvia is the National Broadcasting Council (13 employees). Since 2001 the members of the Council and employees are regularly attending international conferences, EPRA (European Platform for Regulatory Authorities) twice a year, as well as local seminars. French and English language training are also provided.

The website of the Council has been established containing information on the Council, broadcasters in Latvia, legislation, and decisions of the Council. The website also contains an information section and news section, database of books available in the Council's library, and electronic materials about audiovisual issues. An informative edition on electronic mass media in Latvia was published in May 2002.

In November 2001 the Information Centre of the National Broadcasting Council organised a seminar for local and regional TV broadcasters.

The Government of Latvia has allotted a financial contribution of LVL 54 150 to join the “*MEDIA Plus*” and “*MEDIA Training*” programmes in 2002. The “*Memorandum of Understanding*” between the European Community and the Republic of Latvia on Latvian participation in “*MEDIA Plus*” and “*MEDIA Training*” programmes will be approved by the Government in the first half of 2002.

The MEDIA Desk was developed within the National Film Centre of Latvia in April 2002 and a MEDIA Desk Manager appointed in May 2002. The Media Desk will promote the programmes “*MEDIA Plus*” and “*MEDIA Training*” in Latvia and assist representatives of the television and film industry in preparing applications to the programmes.

According to the EU – Latvia Association Council Decision No 8/2001 of 16 October 2001, Latvia fully participates in the **Culture 2000** programme. The Ministry of Culture carries out the functions of the Cultural Contact Point.

Two projects (European Cultural Month Events at the Club Casablanca and photo exhibition Magnum) within the European Culture Month were supported in 2001 in the framework of Culture 2000. In 2002 the project Renaissance of the Historical Handicrafts and Synthesis of the Modern Technologies in Conservation of Bauska Fortress are being supported.

21. Regional Policy and Co-ordination of Structural Instruments

Significant progress has been achieved in establishing a legislative and institutional framework for the implementation of EU regional policy. Framework legislation for regional policy has been adopted. The Managing Authority, Paying Authority and the main institutions to be involved in the Structural Funds implementation have been designated. The Development Plan is being elaborated and will be submitted to the European Commission by the end of 2002.

As regards **territorial organisation**, an agreement was reached with the Eurostat in the form of an official letter of 29 April 2002 on the NUTS classification for the purpose of collecting of regional statistics. According to the agreement, the whole of Latvia corresponds to NUTS I and NUTS II level. As for the NUTS III level, during the course of 2002 and 2003 the existing division of the country (notified to the Commission in 1999) will be used. During the course of 2003 there will be a transition period where both the existing NUTS III division will be used and 5 planning regions will start to function in the borders defined by the Government. The borders of the five planning regions will be approved by the Government by October 2002 as provided by the “*Regional Development Law*” adopted in 21 March 2002. If the discrepancies between territories of planning regions and NUTS III division will exist at that stage, the revision of the NUTS III division will be proposed to the Eurostat. By 2004 the NUTS III division of the territory of the country will correspond to the territories of 5 planning regions and all the statistical information will be collected in accordance with this division.

The reform of local government is ongoing according to the law “*On Administrative Territorial Reform*” adopted on 21 October 1998. By now, 15 new local authorities have been created on the basis of existing 36 local governments. The voluntary amalgamations will be completed by the end of 2003, when the second stage of the reform will commence. The proposal was accepted in the Government on 3 July 2001 suggesting creation of 102 local governments as a result of administrative territorial reform. This will provide the basis for implementation of the reform between January and November 2004.

To establish the **legislative framework** for regional policy in the country, the “*Regional Development Law*” was adopted by the Saeima on 21 March 2002. A number of provisions of the law relate to the implementation of the Structural Funds. The law defines the hierarchy of planning documents for regional development, including the National Development Plan as a national regional policy-planning document for a 7 year period, which is used as a reference document in the elaboration of the Development Plan (Draft Single Programming Document). The law determines the institutional framework for co-ordination of regional policy between national institutions and planning regions, providing the basis for the national, regional and local partnership in the implementation of the Structural Funds. Since the “*Regional Development Law*” replaces the law “*On Assisted Regions*”, it includes provisions on the status of the specially assisted territories and the possibility to support these territories through the Regional Fund. The law authorizes the Government to adopt secondary legislation defining the management, monitoring and control system of the Structural Funds and the Cohesion Fund.

The “*Spatial Planning Law*” was approved by the Saeima on 22 May 2002. It defines the framework for spatial planning and involvement of institutions in spatial planning from national to local level. It substitutes the “*Territorial Development Planning Law*”.

As regards the **institutional structure** for the Structural Funds and the Cohesion Fund management, the Government on 5 February 2002 designated the main institutions to be involved in the process. The Ministry of Finance is designated as the Managing Authority of the Structural Funds and the Cohesion Fund. The State Treasury is designated as the Paying Authority of the Structural Funds and the Cohesion Fund. A number of Partner Institutions have been designated for the Managing Authority to implement activities of each particular Structural Fund. The Regional Policy and Planning Directorate will operate as the Partner Institution concerning the European Regional Development Fund, the Ministry of Welfare concerning the European Social Fund, and the Ministry of Agriculture concerning the European Agricultural Guidance and Guarantee Fund and the Financial Instrument for Fisheries Guidance. Two Implementing Bodies have been designated concerning implementation of the Cohesion Fund - the Ministry of Environmental Protection and Regional Development for the environmental projects and the Ministry of Transport for the transport infrastructure projects.

To establish the Structural Funds and the Cohesion Fund implementation system, the Government on 19 March 2002 adopted “*The Guidelines on the Management, Monitoring, Evaluation and Control of EU Structural Instruments*”. The Guidelines define tasks and responsibilities of the Managing Authority, Paying Authority, Partner Institutions and Intermediate Bodies and also list the potential Intermediate Bodies. The final list of the Intermediate bodies will be produced during elaboration of the Programme Complement of the Single Programming Document.

On the basis of the Guidelines the Regulation “*On the Management, Monitoring, Evaluation and Control of the Structural Funds and Cohesion Fund*” is being elaborated and will be approved by the Government by 1 July 2003. The Regulation will describe the allocations of functions and the organisational relationship between the Managing Authority and Paying Authority, Partner Institutions and Intermediate Bodies. The Agreements between the Managing Authority and Partner Institutions and Intermediate Bodies on the delegation of responsibilities will be signed and appropriate internal procedures established by the date of accession. The delegation of the functions of the Paying Authority is not planned.

Concerning inter-ministerial coordination, the “*The Guidelines on the Management, Monitoring, Evaluation and Control of EU Structural Instruments*” envisage the establishing of a permanent Structural Funds Steering Committee upon the date of accession. The Committee will involve working-level officials from the Managing Authority, Paying Authority, Partner Institutions, Intermediate Bodies and line ministries and will serve as an advisory body to the Managing Authority.

To strengthen **administrative capacity** of the future Managing Authority, several institutions have been merged under the umbrella of the Ministry of Finance since January 2002: the Secretariat of the Minister for Special Assignment for Co-operation with International Financial Agencies, the Regional Development Department of the Ministry of Environmental Protection and Regional Development; the Division of Regional Structural Policy of the Department of Entrepreneurship of the Ministry of Economy, and *Regional Development Ltd*. As a result of reorganization, two new departments have been created in the Ministry of Finance - the Foreign Assistance Co-ordination Department and the Structural Instruments Department. The Directorate of Regional Policy and Planning has been created as an institution under supervision of the Ministry of Finance with responsibility for programming of the Structural Funds.

In 2002 the Ministry of Finance received additional financial resources allowing it to recruit additional 40 staff members to deal with the management of pre-accession financial instruments and the Structural Funds. In 2003 recruitment for 30 additional staff positions is being planned in

the Ministry of Finance for ensuring operations of the Managing Authority. To strengthen capacity of the State Treasury for fulfilment of its competences as the Paying Authority, recruitment of 27 additional staff members is planned in 2003. The final number of additional staff requirements that might be needed for ensuring operations of the Managing Authority and the Paying Authority will be produced during the development of the Single Programming Document and the Programme Complement.

The Partner Institutions are being strengthened through an increase of staff. The Ministry of Welfare in 2002 received a financial allocation for 2 additional staff positions to deal with issues related to the European Social Fund. 6 additional employees will be recruited in 2003. The Ministry of Agriculture has resources for recruiting 1 additional staff member. 14 additional employees will be recruited in 2003.

Furthermore, the following increased staffing levels in the Intermediate Bodies are foreseen in 2003: 20 employees in the Implementing Unit of the Ministry of Finance (Central Financing and Contracting Unit), 7 employees in the State Employment Service; 12 employees in the Ministry of Education and Science and Vocational Education Development Programme Agency, 5 employees in the Ministry of Economy and in the Latvian Development Agency. 120 employees will be recruited to the Rural Support Service, 31 employees to the Latvian Agriculture Consultation and Education Support Centre, and 3 employees to the Food and Veterinary Service.

Concerning the implementation of the Cohesion Fund, the Ministry of Transport has received an allocation of the state budget of 2002 for 5 additional staff positions. The Ministry of Environmental Protection and Regional Development has received financial resources for 8 additional positions.

An inter-ministerial working group was established on 11 March 2002 to elaborate the Human Resources Development Plan for institutions that will be involved in the implementation of the Structural Funds and Cohesion Fund. The Plan covering the necessary capacity building needs and training needs will be completed by October 2002.

Specific training is being carried out concerning the European Social Fund in the School of Public Administration. 12 trainers are involved in providing courses. Training of 50 national level staff (line ministries and ESF intermediaries), 1000 regional and local level staff and social partners is being planned.

A number of the Phare projects is ongoing with an aim to improve administrative capacity of institutions involved in the Structural Funds management. The Phare 2000 Twinning project "*Development of Institutional and Administrative Capacity for Regional Development*" was commenced in April 2002 to assist the Latvian administration in elaboration of the legal and institutional framework for regional policy, building up capacity for strategic planning, administration and implementation of the EU funds at national level, notably the elaboration of a draft Single Programming Document. The project will also enhance the capacity of the building project pipeline at the level of planning regions. Within the framework of the programme "*Special Preparatory Programme for Structural Funds*", capacity building support for the officials of structural units of the Ministry of Finance has been provided. The procedures for implementation of the pre-structural instruments ISPA and SAPARD were reviewed and improved, while reviews of project application were improved. In the framework of the projects "*Horizontal Special Preparatory Programme for European Social Fund*" and the "*Special Preparatory Programme for the Structural Funds*" altogether 277 officials from public administration institutions, municipalities and representatives of social partners attended seminars on the European Social Fund. Assistance will be provided within the Phare 2000 project "*Public Expenditure Management*" to improve management of public expenditure by strengthening of budget planning process.

To develop **programming capacity**, the National Development Plan was approved by the Government on 11 December 2001. It was produced as a medium term strategic planning document to provide the basis for public investments during 2002-2006. The National Development Plan was officially submitted to the European Commission on 29 January 2002. On the basis of the National Development Plan, preparation of the Development Plan was started in January 2002 to serve as the Draft Single Programming Document. The Development Plan will be adopted by the Government in October and submitted to the European Commission by the end of 2002. The preparation of the Programme Complement will be completed by April 2003.

The Ministry of Finance is responsible for the preparation of the Development Plan. The Regional Policy and Planning Directorate under supervision of the Ministry of Finance bears technical responsibility for preparation of the document and coordination of the process with social and economic partners. The Management Group of the National Development Plan (established in April 2000) is entrusted by decision of the Government of 5 March 2002 with the task of steering preparation of the Development Plan. Three task-specific working groups have been established- the Methodology Working Group, the Socio-Economic Working Group and the Finance Working Group. The five Priority Working Groups are established to contribute to the preparation of the five priorities of the Development Plan.

The institutional structure for the preparation of the Development Plan ensures involvement of the planning regions and socio-economic partners according to the principle of partnership. The Management Group of the National Development Plan includes representatives of all ministries and planning regions. Planning regions are also represented in the task-specific working groups. The partnership seminars are organised by the Regional Policy and Planning Directorate upon the preliminary completion of each structural part of the Development Plan. The first partnership seminar was held on 15 March 2002. Representatives of more than 20 non-government organizations participated in the discussion on the procedure for elaboration of the Development Plan.

The second partnership seminar was organised on 26 April 2002. Representatives of the planning regions were invited to discuss the elaboration of the Development Plan. Each planning region presented its development strategy. The activities to be supported under the ERDF were discussed.

The methodology for the preparation of the Development Plan was approved by the Management Group on 25 March 2002. The socio-economic analysis was completed in May 2002. Elaboration of the measures to be included in the Development plan is ongoing. The elaboration of the Development Plan is based on the mono-fund approach, meaning that each priority corresponds to one of the Structural Funds.

The ex-ante evaluation of the Development Plan will be carried out between June and October 2002. It will be financed from the Phare funds under the project "Development of the Institutional and Administrative Capacity for Regional Development" as a separate Service Framework Contract. An independent external evaluator will be contracted for the project.

As regards the **monitoring and evaluation system**, "*The Guidelines on the Management, Monitoring, Evaluation and Control of EU Structural Instruments*" (19 March 2002) list the potential institutions to be represented in the Structural Funds Monitoring Committee and the Cohesion Fund Monitoring Committee. The Guidelines define responsibilities of the Managing Authority, Paying Authority, Partner Institutions and Intermediate Bodies in relation to monitoring. The final allocation of responsibilities concerning monitoring and evaluation will be defined in the Regulation "*On the Management, Monitoring, Evaluation and Control of the Structural Funds and Cohesion Fund*" to be adopted by 1 July 2003.

The Ministry of Finance as the Managing Authority is responsible for setting up the monitoring and evaluation system. The Foreign Assistance Coordination Department of the Ministry of Finance is responsible for development and maintenance of an effective external resources monitoring system. Structures have already been established in line ministries to ensure monitoring of pre-structural financial assistance. As regards PHARE and ISPA monitoring, line ministries are obliged regularly twice a year to produce monitoring reports to be presented in ISPA Monitoring Committees and PHARE Sectoral Monitoring Sub-Committees.

To gather experiences in evaluation, Latvian authorities are involved in the activity "Ex-post evaluation of the Phare Programme 1997/1998" recently initiated by the European Commission. A new contract with the consortium PLS RAMBOLL Management A/S has been signed to support national Phare authorities in carrying out an ex-post evaluation focused on the impact of the Community funds allocated under the Phare country programmes for each candidate country in 1997/1998. In the framework of the project local evaluators will be recruited with responsibility for carrying out activities that contribute to the compilation of the country evaluation report.

It is envisaged that certain evaluation activities within the Structural Funds and Cohesion Fund, such as ex-ante or mid-term evaluation of the Single Programming Document, will be performed by independent evaluators.

The computerized data exchange system for monitoring of the Structural Funds and the Cohesion Fund will be developed on the basis of information systems established for the EU pre-accession financial instruments. The design and the structure of the information system will be finalised during the preparation of the Single Programming Document. The information system will include the four Structural Funds – ESF, ERDF, EAGGF Guidance Section, FIFG and the Cohesion Fund. The system will connect electronically all involved institutions – Managing Authority, Partner Institutions, Intermediate Bodies. The Managing Authority will be responsible for ensuring itself that the data could be aggregated at the level of the SPD as a whole, as well as to ensure the correctness of data. The system will provide access to up-to-date and accurate monitoring information, an audit-trail to support financial control, reporting facilities for the European Commission and the Monitoring Committee, and input data for evaluation purposes. The first test of the IT system will take place in July 2003. The appropriate centralized monitoring system will be in place by the date of accession.

Concerning the **financial management and control system**, the existing legislation in the field of state budget and financial management provides an adequate framework for financial management of the EU pre-accession financial assistance and will be used as a solid basis for financial management of the Structural Funds and Cohesion Funds in the future.

The national budget planning foresees that the financial resources of the EU funds and state budget co-financing are planned for the complete implementation of a programme (project). Thus, in cases where a project of the state budget programme is to be implemented over a period longer than the current budget year, the total required resources from the EU funds and state budget co-financing are stated as long-term public commitments (in an annex to the annual state budget law). In order to ensure availability of the co-financing that is not approved in the "Annual State Budget Law", co-financing agreements are concluded where the amount of co-financing is stated. For the EU pre-accession financial instruments, the total financial flows and sources are reviewed and accepted during the approval process of projects.

The same approach will be used in implementation of programmes financed by the EU Structural Funds. The resources of the EU Structural Funds and related state budget co-financing will be planned as long-term public commitments (included as an annex to the annual state budget law), specifying the total required amount of financial resources for the next year, the year after that and the amount up to the end of the project implementation. The commitment will be made to cover the total programme period of the SPD.

According to the Government Decision of 5 February 2002 and “*The Guidelines on the Management, Monitoring, Evaluation and Control of EU Structural Instruments*” the State Treasury is designated as the Paying Authority of the Structural Funds and the Cohesion Fund. Full independence of the State Treasury as the future Paying Authority will be reinforced by amending the law “*On Budget and Financial Management*” before 1 July 2003. The amendments will stipulate that the State Treasury will not be subordinated to the Ministry of Finance. The payment flow will be organised directly from the State Treasury to the final beneficiaries without intervention by the Partner Institutions or Intermediate Bodies.

According to “*The Guidelines on the Management, Monitoring, Evaluation and Control of EU Structural Instruments*”, the responsibility for financial control will be spread between the institutions at the different levels of the Structural Funds implementation system. The internal audit units are established in the Partner Institutions and the line ministries, which will be involved in the Structural Funds implementation. The internal audit units will also be operational by the date of accession in the institutions performing functions of the Intermediate Bodies. They will be responsible for the verification of the established management system, and performing of selective checks of expenditure declarations. Certification of expenditure will be performed through all the structure of the Structural Funds implementation system.

The final allocation of functions between the Managing Authority, Paying Authority, Partner Institutions and Intermediate Bodies concerning financial control will be defined in the Regulation “*On the management, monitoring, evaluation and control of the Structural Funds and Cohesion Fund*” to be approved by 1 July 2003.

The external financial control will be performed by the State Audit Office. The law “*On the State Audit Office*” was approved in the Saeima on 9 May 2002, entitling the State Audit Office to audit every element of the chain down to the final beneficiaries of the EU funds.

22. Environment

Great efforts have been devoted to the transposition of the environmental *acquis* to complete the transposition by the end of 2002, as well as to transpose the new *acquis* according to the deadlines laid down in the EU *acquis*. Noticeable progress has been achieved in almost all environment sectors, especially in water, nature protection, waste, nuclear safety and reduction of industrial pollution.

During the year attention has been mainly devoted to implementation issues. Institutional strengthening of the inspection system took place.

Directive-specific implementation plans - “Implementation and Financing Plan for the Directive 91/689/EEC”; “Implementation and Financing Plan “On Packaging and Packaging Waste” European Union Directive 94/62/EC for Latvia”; “Landfill Directive Implementation Plan”; “Urban Waste Water Treatment Directive Implementation Plan”; “Drinking Water Directive Implementation Plan”; “Nitrates Directive Implementation Plan”; “Implementation Plan of IPPC Directive”; “Seveso Directive Implementation Plan” and “Solvents (VOC) Directive Implementation Plan” - with timetables and milestones, financing strategies and plans for securing public and private investments into infrastructure and technology, have been prepared. All these plans are available in the homepage of the Ministry of Environmental Protection and Regional Development: <http://www.varam.gov.lv/ein/Strategijas/Eplans.htm>.

Latvia continued to implement the “Action Programme for Sustainable Development” adopted by the Baltic Sea countries within the framework of “Agenda 21 for the Baltic Sea Region”. The Sustainable Development Council chaired by the Prime Minister was established on 5 March

2002. A *Sustainable Development Strategy* is under elaboration. Environmental issues are included in strategic documents of other sectors (agriculture, energy, fisheries).

Horizontal legislation broadly complies with the *acquis*. The amendments to the law “*On Environmental Impact Assessment*”, in order to harmonise provisions related to informing the public on development consent, are under elaboration. The amendments will be adopted by the end of 2002. On 20 December 2001 the Saeima adopted amendments to the law “*On Environmental Protection*” completing the transposition of Directive 90/313/EEC. The Århus Convention was ratified on 18 April 2002. Information for the public was constantly improved through the mass media, information booklets and Internet home pages of the Ministry of Environmental Protection and Regional Development and its subordinated institutions. Public participation in the environmental impact assessment process, elaboration of new legislation and issuing of integrated permits is constantly increasing.

From 2001, participation in the LIFE programme has been ensured. 3 LIFE Nature and 3 LIFE Environment sub-programmes were accepted. The Investment Department of the MEPRD is the national contact point for the evaluation and submitting of applications.

As regards Environmental Impact Assessment (EIA), the institutional structure is functioning; administrative capacity is sufficient and has been regularly strengthened. From the beginning of 2001, the functions of the State EIA Bureau were expanded, including supervision of IPPC permits, review of complaints and establishing and maintenance of best-available-techniques databases. From 2002 the State EIA Bureau is also responsible for the implementation of the SEVESO directive. In January 2002 a new division with 5 employees was established for working specifically with IPPC and Seveso installations.

During 2001 8 Environmental Impact Assessments were performed (including 3 municipal waste landfills, a hazardous waste incinerator, a new road project) and more than 10 are ongoing, including the new pulp mill, hazardous waste landfill, Polyethylene terephthalate (PET) production enterprise and 2 power stations.

The training programmes for the inspectors of the Regional Environmental Boards have been developed. In 2001 43 integrated pollution control inspectors, 50 waters biological resources control inspectors and 34 protected territories and flora, fauna controls inspectors were trained. In 2002 about 150 environmental inspectors, as well marine environment control inspectors will be trained.

Air quality legislation is largely in line with the *acquis*. Efforts were devoted to implementation issues. The amendments to the Regulation “*On Air Quality*” transposing Directive 2000/69/EC were accepted by the Committee of the Cabinet of Ministers on 20 May 2002. According to the amendments limit values for benzene and carbon monoxide will be introduced. Benzene monitoring is being carried out in all 14 air quality-monitoring stations, while carbon monoxide monitoring is being carried out in 4 air quality-monitoring stations.

Amendments to the Regulation “*On Environmental Protection Requirements for Petrol Stations, Oil Terminals and Mobile Containers*” were adopted on 22 January 2002 in order to ensure full transposition of Directive 94/63/EC. The Regulation fully transposing the Directive on the limitation of emissions of volatile organic compounds due to the use of organic solvents in certain activities and installations has been elaborated and will be adopted by the end of 2002. The amendments to the Regulation “*On Conformity Assessment of Petrol and Diesel Fuel*” fully transposing Directive 98/70/EC will be adopted by the end of June 2002.

The institutional system in the air sector is in place and is functioning. The administrative capacity of the institutions involved in the monitoring of ambient air quality has been strengthened. In 2001 one additional automatic DOAS observation station was launched and 15 complementary passive sampling stations all around Latvia have been established, ensuring future possibilities for more detailed air quality assessment. Measurements of new basic air

quality parameters laid down in the Directives, namely CO and benzene (Directive 2000/69/EC) were approved in 2001. Assistance for further implementation of the Air Quality Framework Directive and its daughter directives, including zoning issues, has been provided within the Latvia -Denmark project "Assistance to Latvia on Implementation of the EU Ambient Air Quality Directive" launched in the summer of 2001. The project ensures training in air quality modelling and data validation issues, as well as support for an initial programme of passive sampling for NO₂, SO₂, benzene at hot spots and urban background pollution in Riga. The project will also provide the Riga City Council with one automatic air quality monitoring station.

At present, 2 regional air quality background stations have been established, at the same time operating as regional observation stations for the Global Atmosphere Watch/Cooperative Programme for the monitoring and evaluation of Long Range Air Pollutants in Europe. In the framework of the Phare 2002 project "Development of the Environmental Monitoring System", additional automatic measurement devices and sampling devices will be ensured in order to strengthen measurements and data transmission in the observation stations, as well as reliable and accurate information on air quality in compliance with the *acquis*. The implementation of the project will allow better assessment of both regional background concentrations and the impact of transboundary air pollution.

In the area of **waste management**, the "Waste Management Law" (in force from March 2001) transposes the basic requirements for Waste Framework and Hazardous Waste Directives. The regulations issued previously under the laws "On Municipal Waste" and "On Hazardous Waste" had been replaced by the new legislation, while waste management permits issued under these laws will be in force until their expiry date.

Several regulations - "On the Classification of Waste and on Properties of Waste Rendering them Hazardous" (19 June 2001); "On the Types of Waste Recovery and Disposal" (15 May 2001); "On Requirements for the Waste Incineration and for the Management of Waste Incineration Facilities" (transposing the new waste incineration directive) (17 July 2001); "On Application of Permit, Permitting and Use of Best Available Techniques for Category A (IPPC) Polluting Activities and Category B Polluting Activities for Waste Incineration" (17 July 2001); "On Environmental Pollution from Production of Asbestos and Asbestos Containing Products and on the Management of Asbestos Waste" (2 October 2001); "On Issuing, Prolonging and Revoking of Waste Management Permits" (9 October 2001) and "On the Management of Certain Types of Hazardous Waste" (18 December 2001) - were adopted in 2001 covering issues regarding waste oils (Directive 75/439/EEC), polychlorinated biphenyls and polychlorinated terphenyls (Directive 96/59/EEC), batteries and accumulators (Directive 91/156/EEC), as well as directives on titanium dioxide. The regulations set as a priority waste oil regeneration in comparison with incineration.

The Regulation "On Requirements for Establishing of Landfills, for Management and Closure and After-care of Landfills and Dumpsites", fully transposing Landfills of Waste Directive, was adopted on 3 January 2002. The Regulation "Order of Identification, Storage, Registration, Marking and Tracking of Hazardous Waste" is being coordinated among ministries. The Regulation will be adopted by the middle of July 2002. The Regulation "On Category A, B and C Polluting Activities", including requirements for hazardous waste permits, is being coordinated among ministries. The Regulation will regulate all permitting issues and will be adopted by the middle of 2002.

In order to strengthen the control over transboundary movements of waste, the Regulation "On Order of Import, Export and Transit of Waste" was adopted on 19 February 2002. Upon accession Latvia will be prepared to ensure full implementation of Regulations 259/93 on the control of shipments of waste.

The Saeima adopted the “*Packaging Law*” transposing Directive 94/62/EC on 21 December 2001. To ensure full transposition of the Directive, the Regulations “*On Marking of Classification of Packaging*” and “*On Amounts and Time Scale for Recovery of Used Packaging, Order of Submission of Reports and on Form of Report*” were adopted in April 2002. The legislation will enter into force on 1 July 2002.

The organisation for voluntary packaging waste management Green Dot Latvia (established in the beginning of the year 2000) facilitates implementation of the Packaging Directive requirements within its member companies. At present, 11 largest Latvian food producers have become members of Green Dot Latvia, and almost 10% of total packaging is under their supervision.

Legislation will be harmonised by the end of 2002 with Directive 2000/53/EC on end-of-life vehicles.

The legislation is already harmonised with Directive 86/278/EEC on the protection of the environment, and in particular of the soil, when sewage sludge is used in agriculture. The new Regulation has been prepared in line with the EU new draft Directive and will be adopted by the end of 2002.

The *Waste Management Plan*, in line with the provisions of the relevant waste directives and taking into account all the existing strategies and programmes, has been elaborated in the framework of the Phare Regional Environmental Accession Project. The Waste Management Plan will be adopted by the middle of 2002.

By May 2002, the European Commission had approved ISPA financing for 3 waste sector regional projects, covering 6 districts. The total ISPA contribution in the projects is EUR 11 503 800. The Maliena, East-Latgale and South-Latgale region solid waste management projects are under preparation for submission to the EC for financing from ISPA 2002. The projects will cover 8 districts and will include investments for construction of new landfill as well as for closure and remediation of old dumpsites.

An institutional system to implement legislation in the area of waste management is in place and has been strengthened. The waste management permit system was improved. The main improvements include issuing permits for waste collection, storage and transfer. Clear responsibilities for issuing permits have been set, providing that the Regional Environmental Boards issue waste management permits, and municipalities receive information on both submitted applications and issued permits. From 1 January 2003 a system of waste statistics will be in full compliance with the *acquis*.

The total number of landfills not corresponding to EU requirements has been decreased from 558 (1997) to 252 (2002). 55 landfills were closed and remediated in 2001. In the field of hazardous waste, impact assessment has started to select an appropriate site for the creation of a landfill for hazardous waste.

The persons involved in waste management have been trained on a regular basis on the new legislation. In 2001, 30 inspectors from the Regional Environmental Boards were trained.

In the **nature protection** sector, amendments to the law “*On Specially Protected Nature Territories*” were adopted by the Saeima on 28 February 2002 in order to continue transposition of the Birds and Habitats Directives. The Government adopted the Regulation “*On the Criteria for Establishing of Protected Nature Territories of European (Community) Importance (Natura 2000)*” on 28 May 2002.

The new *State Environmental Monitoring Programme* was adopted on 15 May 2002. The Programme includes a comprehensive chapter on the monitoring of Biological diversity, as well as ensuring the mechanism of obtaining comprehensive data on the status of natural habitats and species that have been identified at national level as ‘of Community interest’.

The *New Biodiversity Awareness Strategy* has been elaborated. In accordance with the strategy a special newsletter called "Nature Diversity" is issued regularly. With support of the UNDP/GEF a booklet "Nature Protection in Latvia from 2000 – 2002" has been published.

The Danish – Latvian technical assistance project "Preparation for Latvia's Compliance with the EMERALD and Natura 2000 Networks of Protected Areas" is ongoing since 2001. Comprehensive assessment for identification of specially protected territories complying with the protection measures of specially protected areas of conservation and Community importance areas will be finished by the end of 2003. 11 new territories are proposed for approval as new specially protected areas, which could potentially be territories of Community importance. In order to be in conformity with the Habitats Directive, a number of regulations has been elaborated. The Committee of the Cabinet of Ministers accepted the Regulation "*On Protected Landscapes*" on 30 April 2002. The amendments to the Regulation "*On Nature Parks*" are being coordinated among ministries and will be adopted in 2002. The Regulation "*On the General Protection and Use of Specially Protected Nature Territories*" has been elaborated and will be adopted by the end of 2002.

The institutions responsible for the implementation of nature protection legislation are in place and have been strengthened. The Nature Protection Board started to operate in May 2002. The Board implements the nature protection legislation, administers protected areas and supervises those specially protected territories, which do not have an administration of their own. The State budget has allocated EUR 280 000 (LVL 156 000) for the functioning of the Board.

A number of training courses for inspectors have taken place in order to acquaint them with the latest legislation and to identify species and habitats of Community interest. 50 forest ecologists from the State Forest Service have been trained within the EMERALD project. Inspectors of Regional Environmental Boards have been trained on nature protection issues.

Significant progress has been achieved in the **water quality** sector. In order to transpose Directive 91/676/EEC, the Regulation "*On the Protections of Water and Soil against Pollution Caused by Nitrates from Agricultural Sources*" was adopted on 18 December 2001. The Regulation identifies vulnerable zones, requires elaboration of a relevant monitoring programme and lays down requirements for agricultural activities in vulnerable zones. According to the Regulation, an action programme with respect to vulnerable zones will be elaborated within 2 years (by the end of 2003). The Co-ordination committee for the management of vulnerable zones was established on 3 April 2002.

The Regulation "*On Water Emissions of Pollutants*" fully transposing the Dangerous Substances Directive, its daughter directives, the Groundwater Directive and the Urban Wastewater Directive was adopted on 22 January 2002. The Regulation identifies the entire territory of Latvia as a sensitive area according to the requirements of the Urban Wastewater Directive, and determines list I and list II substances according to the requirements of the Directives. A preliminary list of possible emission sources of list I and list II substances was elaborated. The elaboration of pollution reduction programmes for list II substances has started in the framework of a Danish technical assistance project. The programmes will be prepared upon accession.

The Regulation "*On Surface Water and Groundwater Quality*", transposing Directives 75/440/EEC, 76/160/EEC, 78/659/EEC and 79/869/EEC, was adopted on 12 March 2002.

The Saeima at the 2nd reading on 30 May 2002 adopted the "*Water Management Law*", transposing the Water Framework Directive. The law will be adopted by the end of 2002. The full transposition of the *acquis* in the water quality area will be achieved by the adoption of a number of Regulations, determining precise boundaries of the River Basin Districts and laying down requirements for the development of River Basin Management Plans and Programmes of Measures. The Regulations will provide for classification of surface and groundwater bodies, as

well as establish quality criteria for all classified waters. The Regulations will be elaborated by the end of 2003.

Amendments to the Regulation "*Obligatory Requirements for the Harmlessness of Drinking Water*" transposing Directive 98/83/EC have been elaborated. The amendments will be adopted in July 2002.

The institutional structure for the implementation of water sector legislation is in place and is functioning. The administrative capacity has been strengthened. 6 workshops for biologists from the Regional Environment Boards on sampling and analyses of water have been held. In 2001, the Latvian Environmental Agency made an analysis of the existing water monitoring programmes, assessed their compliance with the EU water directives and developed a new State Environmental Monitoring Programme.

In 2001 86 monitoring stations were operating for recording of the quality of surface waters.

It is foreseen in the "*Water Management Law*" that the State Geological Survey, the institution, which is currently responsible for ground water monitoring, will co-ordinate the management of the river basin districts according to the Water Framework Directive.

By May 2002, the European Commission had approved ISPA financing for 5 water sector development projects, covering 22 cities and towns. The total ISPA contribution in the projects is EUR 90 600 000. A project for development of water services in Rezekne city was submitted to the EC for financing from ISPA 2002 at beginning of February 2002. ISPA financing for the project is around EUR 6 000 000. 4 water sector projects for financing in future from ISPA or the Cohesion Fund are under preparation. The projects will cover 29 towns and cities and will include investments for construction works as well as for preparation of tendering documentation for future investments in order to reach full compliance with the *acquis* in the water sector.

In the field of **industrial pollution control and risk management**, transposition of the IPPC Directive was completed by the adoption of the Regulation "*On Application of Permit, Permitting and Use of Best Available Techniques for Category A (IPPC) Polluting Activities and Category B Polluting Activities for Waste Incineration*" in July 2001. The operators performing industrial activities, according to the IPPC Directive, will be obliged to receive one integrated permit issued by the Regional Environmental Boards. An integrated permit system for the new installations and substantial changes in the existing installations was introduced in January 2002. Permits for all existing installations will be introduced gradually until 2007.

The Regulation "*Procedures for Industrial Accident Risk Assessment and Risk Reduction Measures*" fully transposing Directive 96/82/EC (Seveso II) came into force on 1 July 2001. The Regulation defines the institutional structure for implementation of the Directive.

The Regulation transposing Directive 1999/13/EC and including provisions of the new Large Combustion Plants Directive have been elaborated and will be adopted by the middle of 2002. An overall inventory of volatile organic compounds from certain activities and installations has been carried out.

The institutional structure is in place and functioning. The administrative capacity has been strengthened. The implementation of the Directives will be carried out mainly through the existing institutions. The State Environmental Impact Assessment Bureau, the central institution in the industrial pollution field, has evaluated 5 Environmental Impact Statements – 3 related to landfills, 1 to a disposal site for polluted harbour mud and 1 to a hydroelectric power plant. The Bureau is responsible for appeals and for the best available techniques (BAT) information and permits database.

In the State Environmental Inspection a new division (5 employees) working specifically with IPPC and Seveso installations was established in January 2002.

Regarding the SEVESO II directive, responsibility will be shared among the State Fire Fighting and Rescue Service, the State Labour Inspectorate, the Public Health Agency and the Centre of Emergency and Disaster Medicine supervised by the Ministry of Welfare, and municipalities.

In the framework of the Latvia - Denmark technical assistance project, work with 7 pilot enterprises covering different industrial sectors is ongoing. At the end of the project at the beginning of 2003 the enterprises will receive integrated permits. The enterprise "Lauma" received the first integrated permit on 1 February 2002.

In order to implement Directive 1999/13/EC, a joint Latvia - Germany project is ongoing. In the framework of the project the implementation plan of the Directive has been elaborated. According to the amendments to the law "*On Environmental Protection*" adopted on 22 December 2001 the competent institution for the Eco Management and Audit Scheme (EMAS) is the State Environment Impact Assessment Bureau, but for Eco-label the Latvian Environment Agency. ISO 14 001 standard has been adopted and is already implemented in several enterprises.

The pollutant emission register in the Latvian Environmental Agency will be introduced by the end of 2002.

The Regulation "*On Labels Indicating Airborne Emissions from Household Appliances*" transposing Directive 86/594/EEC was adopted on 29 January 2002. Directive 2000/14/EC is transposed by the Regulation "*On Noise from Equipment Used Outdoors*" which was adopted on 23 April 2002.

The administrative capacity in the noise sector has been strengthened. Since the adoption of the aforementioned Regulations, the Consumer Rights Protection Centre is the competent authority for noise emitted by household appliances. Regarding implementation of the Directive 2000/14/EC, a division of responsibilities has been carried out on the basis of the Regulation "*On Noise from Equipment Used Outdoors*". Responsibilities are divided between the Ministry of Welfare, the State Labour Inspection and the Ministry of Economics, particularly the Consumer Rights Protection Centre.

On 13 November 2001 the Government accepted "The Third National Communication of the Republic of Latvia under the United Nations Framework Convention on **Climate Change**".

The Saeima adopted the law on the ratification of "*Kyoto Protocol to the United Nations Framework Convention on Climate Change*" on 30 May 2002.

The *National Climate Change Programme* is under elaboration. The Programme will be adopted in 2003. The Programme includes requirements of Council Decision of 26 April 1999 amending Decision 93/389/EEC for a monitoring mechanism of Community CO₂ and other greenhouse gas emissions (1999/296/EC).

A concept for national strategy on how to approach Joint Implementation (JI) was submitted to the Government in April 2002. The Concept has been elaborated in co-operation with NGOs. The *Joint Implementation Strategy* will be adopted by the end of 2002.

In the sector of **chemicals and genetically modified organisms**, the Regulation "*On Classification, Packaging and Labelling of Dangerous Chemical Substances and Chemical Products*" transposing Directive 1999/45/EC was adopted on 12 March 2002 and will enter in force on 30 July 2002. Directive 87/217/EEC has been transposed by adopting the Regulation "*On Pollution Caused by Asbestos*" on 2 October 2001. The Regulation "*Requirements in Respect of Keeping, Marketing and Slaughtering of Animals Used for Experimental and Scientific Purposes*" ensuring full compliance with the Directive 86/609/EC came into force on 1 February 2002. In order to ensure compliance with the Regulation 2037/2000, amendments to the Regulation "*On the Protection of Ozone Layer*" were adopted on 15 January 2002.

The Regulation "*On Activities with Biocides*" fully transposing Directive 98/8/EC has been elaborated and will be adopted by November 2002.

The institutional system for the implementation of the legislation on chemical substances and chemical products, animal experiments and asbestos is in place. From 2003 the number of employees in the Chemical Register Division in the Latvian Environmental Agency will be increased to 9, including 2 more employees dealing with risk assessment and the risk reduction.

In the **nuclear safety and radiation protection** sector, transposition of the *acquis* is almost completed. Several regulations - "*On Activities Involving Ionising Radiation Sources which Do Not Require Special Permit (License) or Permit*" (3 July 2001); "*On Minimal Insurance of the Civil Liability of Operator Activities Involving Ionising Radiation Sources*" (3 July 2001); "*On the Criteria in Order to Require a Special Permit (License) or Permit for Activities Involving Ionising Radiation Sources*" (3 July 2001); "*Regulations on Protection Against Ionising Radiation Transporting Radioactive Materials*" (3 July 2001); "*On the Procedure for Completion and Transmission of Safety Data Sheet*" (18 September 2001); "*On the Procedure for Packing and Marking of Radiation Sources*" (18 September 2001); "*On Procedure for Control and Accounting of Exposure of Workers*" (23 October 2001); "*On Medical Contraindications to Ionising Radiation Exposure*" (28 December 2001); "*On Procedure for the Dismantling of Ionising Radiation Equipment that Does Not Contain Radioactive Substances*" (3 January 2002); "*Regulations on Protection Against Ionising Radiation in Medical Exposures*" (5 March 2002) and "*Regulations on Protection Against Ionising Radiation*" (9 April 2002) - have been adopted since July 2001.

In order to implement EU Council recommendations contained in the report "Nuclear Safety in the Context of Enlargement", the Government adopted the Regulations "*Requirements for Practices Involving Radioactive Waste and Related Materials*" (19 March 2002) and "*Criteria and Principles for Establishment of Equivalence for Radioactive Waste*" (16 April 2002). The Regulation "*On Accountancy and Control System of Nuclear Materials*" has been prepared. An Information exchange system has been established. A number of activities are being carried out within the framework of the ACCESS project with support of the Euratom Safeguards Department for all pre-accession countries.

The Radiation Safety Centre, the responsible institution for the supervision and control of radiation safety, has been strengthened. In 2001, the Centre received laboratory equipment from the Danish Emergency Management Agency, while financial assistance for the equipment has been received from the Swedish Nuclear Power Station. 15 employees in 2001 and 7 in the beginning of 2002 have been trained on several nuclear safety issues, and 28 employees have undergone language-training courses. In co-operation with the Swedish Nuclear Power Inspectorate, the Centre has trained 50 border guards on radiation control issues.

23. Consumers and Health Protection

The national legislation on consumer and health protection is broadly in line with the *acquis* (for health protection see also chapter 13. *Social Policy and Employment*). The established institutions for the protection of consumer rights are being constantly strengthened. Special attention is paid to improving the protection of consumer rights and market surveillance in the regions. Consumer and producer awareness of their rights and responsibilities is being enhanced.

Amendments to the "*Consumer Rights Protection Law*" were adopted on 22 November 2001, implementing the directives on guarantees and injunction actions (Directives 99/44/EC and 98/27/EEC). Amendments to the Regulation "*On Labelling of Foodstuffs*" were approved by the Government in August 2001 providing alignment with the EU Regulations on novel foodstuffs (2000/49 and 2000/50). In March 2002 the Regulation "*On essential requirements for aerosol*

dispensers and labelling procedure" was adopted by the Government implementing Directive 75/324/EEC and Directive 94/1/EC.

Directive 2000/55/EC will be implemented in the Latvian legislation by the end of 2002. The Regulation "*On Distance Selling*" was adopted on 28 May 2002.

Most of the EU legislation related to safety and non-safety measures is implemented in the Latvian legislation, leaving for implementation only new *acquis*, for example, the general product safety Directive 2001/95/EC.

Strengthening of administrative structures and development of regional offices of the Consumer Protection Centre is one of priorities of the Government. The Division for Surveillance of Advertising, dealing with misleading and comparative advertising issues, has been set up. In 2002, the Consumer Rights Protection Centre received a 28% extra budget allocation to set up additional regional offices and a Legal Division for dealing with unfair contract terms. Staff of the Consumer Rights Protection Centre has increased by 9 employees in 2001, while hiring of 8 employees is planned in 2002. Three regional offices of the Consumer Rights Protection Centre have been set up in Tukums, Jelgava and Daugavpils in 2002.

In 2001, personnel of the Consumer Rights Protection Centre and Consumer Rights Protection Division of the Ministry of Economics participated in the educational seminars organised by Danish experts on product safety, advertising and unfair contract terms (20 employees in each of 8 seminars). In addition, regular training is taking place in the Public Administration School.

Further assistance with regard to strengthening administrative capacity of the Consumer Rights Protection Division of the Ministry of Economics, the Consumer Rights Protection Centre and the Market Surveillance Council will be provided within the framework of the Phare 2002 project "Market surveillance system in non-food area".

Last year, the Consumer Rights Protection Centre received and handled 596 complaints and provided 7383 consultations. The Centre is an affiliate member of the international consumer rights protection organisation "Consumers International". It actively participates in the exchange system of information on dangerous products TRAPEX and it has become a member of the International Market Surveillance Network (IMSN).

Non-governmental consumer organisations play an increasing role in consumer protection and promotion of general awareness of consumer rights. In 2001, the Latvian Consumers' Protection Association received 4258 complaints from consumers concerning quality of goods and services and gave legal advice in order to protect consumer rights. The web site www.consumer-guide.lv is being regularly updated with the latest information.

In 2001, the Latvian Consumer Protection Association started the implementation of the Phare Access Macro project "Promotion of Consumer Interests in Latvia and Strengthening of the Latvian Consumer Protection Association". The main goals of the project are to raise consumer awareness by organising media campaigns and publishing relevant information materials, and to organise training for the association's employees.

24. Co-operation in the Fields of Justice and Home Affairs

The alignment of legislation with the *acquis* has been largely completed. Particular attention has been paid to strengthening of border control. Restructuring of institutions has been made to improve the control of immigration processes and co-ordination of asylum issues. Police structures have been strengthened to fight money laundering and other forms of economic crime. Training has been enhanced in all related issues.

EU requirements in the field of **data protection** have been largely implemented. The 1981 Convention of the Council of Europe on the protection of individuals with regard to automatic processing of personal data is in force since 1 September 2001. National legislation on personal data protection has been further improved and an independent data protection supervision authority, the State Data Inspectorate, strengthened.

Legislative amendments have been made to the “*Personal Data Protection Law*” (passed in the second reading in the Saeima on 30 May 2002) to be adopted by July. The amendments stipulate that personal data protection should also apply to the police sector and authorize the State Data Inspectorate to impose administrative penalties in case of violation of personal data processing. The amendments also provide for the strengthening the independence of the Inspectorate.

The capacity of the State Data Inspectorate has been further strengthened. The budget has increased from LVL 100 182 in 2001 to 227 201 in 2002, and the number of employees increased from 10 to 17 respectively (see also Chapter 3 – *Freedom to provide services*).

Legislation of Latvia is broadly in line with the requirements of the *acquis* in the field of **visa policy**. The remaining shortcomings have been addressed in the new “*Immigration Law*”. In October 2001, the Government adopted the revised Action Plan (including financial commitments) for the implementation of the requirements of the Schengen *acquis, inter alia*, on visas. The capacity of institutions has been further strengthened.

The “*Immigration Law*” (adopted by the Government on 28 May 2002, expected to come into force by the end of the year 2002) further aligns Latvian legislation with regard to issues such as the term of validity and extension of visas, authorities that issue and cancel visas, issue of visas on the border, requirements for obtaining and cancelling visas, responsibility of the issuers of invitations, etc.

Regulations subjected to the “*Immigration Law*” will be elaborated by the end of 2002, *inter alia*, with regard to recognition of travel documents, the visa issuing procedure and the state fee for visas. The Law, together with the regulations and internal instructions, will ensure full compliance of national legislation with the requirements of the *acquis* in the field of visa policy.

Amendments to the Regulation “*On the Procedure of Issuing Visas*”, implementing the decision Sch/Com-ex(93)21 on extending the uniform visa (in force since 27 March 2002), provide for the issuing of a new visa only due to international obligations, changed circumstances, *force majeure* or humanitarian grounds. Amendments in force since 27 May 2002 provide that transit visas should be introduced for transit train passengers, and that Romanian citizens can obtain visas at the border without an invitation.

Several pieces of internal instructions have been adopted in order to implement unified requirements for the validating of invitations and to ensure proper control of persons so as to reduce the risk of illegal immigration.

In order to continue alignment with CR 539/2001, agreements on a visa-free regime have been concluded with Monaco (in force since 7 October 2001) and Panama. An agreement with Bulgaria will be concluded in July. An agreement has been initialled with Hong Kong SAR. On 23 January 2002, a draft agreement on mutual abolition of visa requirements was submitted to Romania, taking into account CR 2414/2001. At present, a mutual visa-free regime has been established with 15 states mentioned in Annex II of CR 539/2001, and with 2 states Latvia applies a visa-free regime unilaterally.

The development of the Unified Visa Information System (UVIS) continued in order to supplement it with the Invitation Database and Entry Prohibition Database. These databases should start operating on 1 July 2002.

UVIS is used by the staff of the State Border Guard for the control of persons crossing the border. UVIS is accessible on-line at all border crossings connected to the National Data

Transmission Network. Since September 2001, twelve border crossings on future external borders were connected to UVIS, and at present 38 out of 42 external border crossings have on-line connection. The remaining 3 border crossing points will be connected after completion of their construction by the end of 2002, and one in 2003.

Six new visa printers have been installed in the territorial divisions of the Office of Citizenship and Migration Affairs (OCMA). All the divisions issuing visas will be provided with visa printers by the end of 2002.

Within the framework of regular training of the staff dealing with visa issues, as well as within Phare projects, approximately 100 persons (including OCMA, consular staff, border guards) have been trained on visa issues, *inter alia*, on the requirements of the Common Consular Instruction, practical aspects of the issue of visas, IT, interviewing techniques, issuing of Schengen visas (in co-operation with Finland). By July 2002, training will be organized for the staff of all institutions working with the newly created UVIS databases (52 persons).

The transit zone at the Riga airport was established in August 2001.

Legislation on **external borders** is in line with the *acquis*. Strengthening of border control continued by implementing the *State Border Guard Development Concept 2001 – 2005*, as well as the *Schengen Action Plan*. A series of supplementary legislation has been adopted and amendments to the existing legislation made in order to improve border control. The capacity of institutions responsible for border control and co-operation among them have been further strengthened.

In order to establish an integrated approach to border management, an integrated border management strategy has been drafted within the Phare project, first of all aiming to improve co-operation among the institutions involved in border management.

In order to prepare for the implementation of the strategy prior to its official approval, the following steps have been taken: in May 2002, an agreement between the State Border Guard and the Office of Citizenship and Migration Affairs was signed on co-operation in cases when a person applies for asylum, as well as an agreement on electronic information exchange; an agreement between the Sanitary Border Inspectorate and the National Customs Board was signed on 16 May 2002, which provides for co-operation in development and updating of technological schemes of the customs control posts, in drafting legislation, in exchange of information on possible offences on the border, and in training of staff; by July the establishment of a group of permanent representatives from the institutions involved in border management is planned (at the level of deputy state secretaries of the Ministries and heads of other institutions); by September the elaboration of a co-operation model (an agreement) on visa issues among the Office of Citizenship and Migration Affairs, the State Border Guard and the Consular Department of the Ministry of Foreign Affairs is planned.

A legislative basis has been established in order to implement the decision to extend the responsibility of border guards to the entire border. On 19 October 2001, the amendments to the “*State Border Law*”, the law “*On Border Guard*”, and the law “*On National Defence Forces*” came into force. The Regulation “*On the Procedure of Guarding the Sea Border by the State Border Guard with Involvement of the Vessels, Aircraft and Technical Means of the National Armed Forces*” was adopted on 19 March 2002. A unified national border-guarding plan has been elaborated. On the basis of these documents, a coordinated management of the sea border has been launched.

Following the decision to extend the responsibility of border guards to the entire border, a specialized Sea Border Guard Service has been established within the Border Guard. It consists of the service management unit and three vessel units at the Riga, Ventspils and Liepaja territorial divisions with a staff of 37 people. Altogether, 540 border guards are involved in sea border control.

In order to improve equipment available for the surveillance of the sea border, a project proposal for the State Investment Programme "Establishment of the Sea Border Video Surveillance System" with funding of LVL 3.469 million has been elaborated. The system will be compatible with the Sea Radiolocation Surveillance System of the Navy. The project "Sea Border Surveillance" has been elaborated in order to attract Phare funding (required amount MEUR 3.8), which includes the purchasing and installation of stationary and portable video surveillance systems, as well as equipment for information exchange among the Border Guard, the Navy, the Customs, and other involved institutions. The implementation of these projects will lead to the establishment of an integrated sea surveillance system allowing for control of the open sea, territorial waters, ports and coastal zone.

The electronic border control information system REIS-1999 is operating on-line at all ports, including the small ones, providing also on-line connection to UVIS.

Strengthening of the Eastern border continued to be Government's priority. In 2001, LVL 10.464 million (7.274 million from the state budget, and 3.19 million from the Phare programme), were allocated for this purpose. In 2002, LVL 8.489 million from the state budget (an increase by 1.215 million compared to 2001) and LVL 1.823 million from Phare funding were allocated. Due to unused Phare funding in 2001, the total investment for the year 2002 is LVL 11.532 million.

Since August 2001, three border guard divisions, three border crossing points (BCP), and seven surveillance towers have been built. The programme of building of 20 surveillance towers will be completed by August 2002. By the end of 2002, three border guard divisions, two BCP and two railway border control points will be built. Three divisions and one BCP will be built in 2003, thus completing the construction of all border crossing points and border guard divisions on the Eastern border.

Border guard divisions and border crossing points are being equipped with security video surveillance systems. In order to improve the surveillance of the territories of border crossing points and the adjacent "green border" areas, six additional long-range video surveillance cameras and the first thermal (night surveillance) camera have been installed. An installation of a new video surveillance system at Riga airport is expected by August 2002.

The State Border Guard Information System (RAIS) and the new electronic border control information system "REIS-2000" have been further developed and will be implemented by the end of 2002 and in 2004 respectively.

In order to improve radiometric control on the border, the Regulation "*On procedure of radiometric control of goods and vehicles and of detecting of undeclared ionising radiation sources on the state border*" has been drafted (adopted by the Committee of the Cabinet of Ministers on 15 April 2002). During 2002 all border crossing points will be equipped with portable radiation control equipment (altogether 150 Ludlum and Pager type equipment), which will be provided by the US within an intergovernmental agreement on cooperation in the area of the prevention of proliferation of weapons and mass destruction measures.

Equipping of border crossings with technical means for detecting forgeries continued. Twenty four stationary document checking devices with ultra-violet sources and twenty portable magnifying glasses have been purchased. The information system on travel and other types of documents ("APAD") is being developed. Experimental use of the system will start by the end of 2002. Developing of the database of coloured pictures of travel documents and their means of protection, used by the Border Guard, continued. 95 catalogues of coloured travel documents are available at border crossings. The international border guard stamp handbook has been issued and distributed among all territorial divisions of the Border Guard and consular offices. In order to enhance the capacity to detect forged documents and to prepare for participation in the FADO system, the Regulation "*On technical equipment of border control points*" (in accordance with

CR 398Y0617(01)) was adopted by the Government on 25 May 2002, and the State Investment Project for the years 2003-2007 "Equipment of border control points with technical guarding, control and communications systems" with funding of LVL 9.422 million has been drafted.

In order to improve controls along the green borders and increase mobility of border guards, 25 all-terrain vehicles, 15 snow motorcycles, 2 high-speed patrol boats, 3 minibuses, as well as corresponding GPS navigation equipment (26 sets) and night vision devices (17 pieces) have been purchased. At present, it is possible for each of the 15 border guard divisions defending the Eastern border to activate two mobile patrols simultaneously, which ensures effective surveillance of the "green border" in all its length.

The development of the canine service is continuing. Following a training course in Germany, a new service dog-breeding programme has been developed and implemented at the Dog Breeding Centre at the Rezekne Border Guard School. 85 dogs have been trained at the Dog Breeding Centre and 85 border guards prepared to work with these dogs. 48 border guards have participated in the training course organised by Finnish Border Guard dog breeding specialists. With the help of dogs, the detection of narcotic substances increased from 10 to 16 cases.

Several pieces of secondary legislation have been drafted in order to improve the effectiveness of border control. The Regulations "*The procedure for crossing the state border by persons*" (effective since 14 July 2001) and "*The regime at border control points*" (submitted to the Government) implement the requirements of the Schengen Convention on adequate check of persons crossing the external borders. Amendments to the Regulation "*The procedure of issuing visas of the Republic of Latvia*" providing for more intensified checking of persons on the border, have been adopted. Amendments to the Regulation "*On Border Area and Border Zonal Regime of the Republic of Latvia*", envisaging the implementation of strengthened security measures on the Eastern border, have been drafted.

Strengthening of capacity of the Border Guard is one of the priority areas. LVL 11.862 million were allocated for this purpose in 2002, including LVL 6.226 million for salaries (in 2001 - 10.500 million and 5.687 million respectively).

On 1 April 2002, the establishment of the State Border Guard College on the basis of the Rezekne Border Guard School was commenced in accordance with the *Professional Personnel Training Concept 2001-2005* (approved on 26 June 2001) and the Regulation "*On the Establishment of the State Border Guard College*" (adopted on 27 February 2002).

Professional training of border guards continued at the Rezekne Border Guard School and the Police Academy of Latvia. In 2001, 95 border guards completed and 96 began a one year basic course at the Rezekne Border Guard School. 43 border guards were trained according to a one month training programme. 91 students graduated from the Border Guard College of the Police Academy of Latvia. 20 border guards from commanding staff have increased their qualification at the Police Academy.

In the beginning of 2002, the first stage of reconstruction of the Rezekne Border Guard School was finished. The reconstruction will be completed in 2003 providing for the accommodation of up to 160 students. In order to ensure the training of border guards in the usage of technical surveillance systems installed on the Eastern border, the school has been supplied with two work stations of the computerised border guard management system UNIFORM, as well as with samples of RACAL type sensors.

In April 2002, 170 border guards completed a two-year language (English, German) training course funded by Phare. Within this project, 14 computerised language learning devices have been installed at the territorial units of the Border Guard and at the Main Board in order to continue the improvement of language knowledge on an ongoing basis. In co-operation with the National Radiation Security Centre, 40 border guards have been trained to work with radiation control equipment. In total 251 computer operators have been trained in applying REIS-1999 and

its databases, and the training is continuing. 5 leading experts of the Border Guard Computer Service have become acquainted with the information systems used in border control in Finland.

In order to increase the capacity to detect falsified documents, 134 border guards, as well as representatives from the Office of Citizenship and Migration Affairs, have been trained in detecting forged documents, in interrogation of the document holders and in identification of counterfeiters. The training was carried out by the Forensic Centre of the Ministry of Interior with participation of experts from the US, Finland, Sweden, and other countries. Similar training has been organised by the experts of the State Border Guard for 180 employees of territorial units and 16 consular officers. Two border guard experts have been authorized by the Forensic Centre of the State Police to perform document expertise acknowledged in courts.

Co-operation among institutions involved in border control has been further strengthened. The experts of the Drug Enforcement Bureau have trained 279 border guards in detecting risk groups and in identifying narcotic substances. Unified technological action schemes for the Border Guard and the Customs at railway border control points have been developed, and the development of similar schemes at airports and ports has been initiated. The schemes envisage, *inter alia*, the exact order of checks and distribution of responsibilities in order to avoid overlapping of functions and reduce overall length of checks. Such schemes have already been enforced at all land border control points and proved to be efficient. Two drug-searching dogs have been trained at the Rezekne Border Guard School for Customs needs, and two Customs officials have learned how to work with these dogs. As regards information exchange between the Border Guard and the Customs, the number of authorised persons who have access to each other's information systems increased by 2 persons in each institution in 2002, making it 4 persons in the Border Guard and 7 in the Customs. In order to increase the efficiency of the use of current databases and co-operation on the borders, the Border Guard computer experts have trained 45 Sanitary Border Inspectorate officers.

In order to prepare for participation in the Schengen Information System (SIS), development of IT infrastructure and national registers continued. The concept for the creation of the division of the National Schengen Information System and SIRENE Bureau has been drafted. In the beginning of 2002, seven persons from the Ministry of Interior became acquainted with the experience of Austria, Finland and France with regard to SIS and planning of SIS II. The draft project "Preparation for participation in Schengen Information System" has been prepared within the Phare framework.

Legislation in the field of **migration** is broadly in line with the *acquis*. To address the remaining shortcomings, a new *Immigration Law* has been adopted by the Government. Administrative changes have been made and co-operation among institutions strengthened to improve the control of migration processes.

The "*Immigration Law*" (adopted by the Government on 28 May 2002, expected to come into force by the end of the year 2002) further aligns Latvian legislation with the *acquis* in regard to, *inter alia*, third country nationals residing on a long-term basis in Latvia, self-employed persons, marriages of convenience, unaccompanied minors, checks on and expulsion of persons residing or working without authorisation, admission of third country nationals for study purposes, detention and expulsion.

Regulations pursuant to the "*Immigration Law*" will be elaborated by the end of 2002. The Law together with the regulations will ensure full compliance of national legislation with the requirements of the *acquis* in the field of migration.

A readmission agreement with Hungary has been concluded, and readmission agreements with Bulgaria, Romania, and Poland will be signed in July 2002. At present, readmission agreements have been concluded with 23 countries.

To improve living conditions at Olaine Detention Centre, a project proposal for the State Investment Programme for reconstruction of the centre (with funding of LVL 2.1 million) has been drafted. In addition, drafting of a project for the establishment of a temporary residence centre for illegal migrants and asylum seekers in Daugavpils for the accommodation of approximately 80 persons has been started and will be completed by the end of 2002. Both centres will be equipped in accordance with EU requirements providing for the separation of convicts from expelled and illegal immigrants. As a temporary measure, a separate access to Olaine Detention Centre will be provided by July in order to separate the centre from the nearby prison. In 2002, allowances for food per person were increased by 40%.

In order to improve the efficiency of combating illegal immigration, the Immigration Service within the State Border Guard was established in January 2002. The Service consists of the Immigration Board, regional units all over the country, and at Olaine Detention Centre with a staff of 140 people. In 2002, LVL 405.4 thousand were allocated from budget for the Service. Internal instructions regulating the activities of the Service have been adopted, including the Statutes of the Immigration Board and instructions on expulsion of foreigners and stateless persons.

The Service is responsible for identification and interviewing of asylum seekers, as well as extradition of illegal immigrants. The responsibility of the Service is not limited only to the border area, but is extended to the whole territory of Latvia in order to reduce illegal entrance and stay in the country. The Service works in close co-operation with the Office of Citizenship and Migration Affairs. In May 2002, an agreement on electronic information exchange between the two institutions, which will provide for reciprocal access to databases, was signed. As a result of these administrative changes, a unified control of immigration processes has been established.

40 persons have been trained within the framework of regular training carried out by the Immigration Board for the staff of its regional units. In co-operation with Denmark, Germany, and Finland, exchange of experience in the field of immigration prevention has been organised for the high-level staff of the Immigration Service. 15 border guards participated in study tours on prevention of illegal human trafficking, readmission, extradition, and other issues. In March 2002, 16 border guards participated in the training organized by the US Immigration and Naturalisation Service.

Within regular training organised by the State Administration School, as well as within Phare, TAIEX, Baltic Migration Council, IOM, and UNHCR, 25 employees of the Office of Citizenship and Migration Affairs have participated in seminars on issues such as illegal migration and the rights of migrants, employment and self-employed persons, the role of border control in fighting terrorism, family reunification, the fight against illegal migration, detention and expulsion, implementation of Schengen requirements in the area of migration and visas, migration management, migration and asylum policy in the Baltic States.

During 2001, the number of expelled persons was 238. During the first three months of 2002, 36 persons were expelled. At present, there are 44 people in the illegal immigrant detention centre in Olaine.

As regards **asylum**, the alignment of legislation with the *acquis* has been completed. Co-ordination of asylum issues has been improved and the capacity of institutions strengthened.

With the adoption of the "Asylum Law", which will enter into force on 1 September 2002 along with the implementing regulations, Latvian legislation has been fully harmonised with the *acquis*. In addition to the refugee status, the Law provides for granting subsidiary and temporary protection. The Law also addresses, *inter alia*, issues such as *non-refoulement*, safe third countries, family reunification, minimum guarantees for asylum procedures, detention of asylum

seekers, repeated asylum applications, as well as providing for longer deadlines in case of the accelerated procedure.

Experience of EU member states in applying the Dublin Convention has been examined, as well as compliance of Latvian legislation with the requirements of the Convention. Within TAIEX and in co-operation with the Netherlands, consultations have been held on interpretation and application of the Dublin Convention. Technical and financial resources necessary for the implementation of the EURODAC system have been assessed.

In order to increase the efficiency of institutions dealing with asylum issues and avoid overlapping of functions, an internal reform has been carried out within the Ministry of Interior, as a result of which two institutions are now in charge for asylum matters. The Immigration Service within the State Border Guard is responsible for identification and interviewing of asylum seekers, while the Office of Citizenship and Migration Affairs – for their reception.

Internal instructions “On the procedure of interviewing of asylum seekers” and “On the action of Border Guard officers in case an individual applies for asylum in the Republic of Latvia” have been adopted. In May 2002, an agreement between the State Border Guard and the Office of Citizenship and Migration Affairs was signed on co-operation in cases when a person applies for asylum.

In order to strengthen the administrative capacity, the training of staff has been increased. The Office of Citizenship and Migration Affairs has started a training programme on asylum matters for the staff of its regional divisions. The first seminar was held in April 2002 (7 participants). The training will be continued, including on the new Asylum Law for the staff of the Refugee Affairs Centre.

10 border guards became acquainted with Danish and Swedish experience in the field of asylum (planning, interviewing, establishment of reception centres for asylum seekers and illegal immigrants). The issue of future co-operation has also been discussed. In April 2002, 10 border guards attended a seminar on the implementation of the Dublin Convention held by the Swedish Immigration Board. The Refugee Affairs Centre, in cooperation with the UNHCR and the Appeal Council, has prepared a 3 days seminar for the staff of the State Border Guard on asylum matters.

Various seminars and training programmes on asylum matters have been organised for the staff of the involved institutions in co-operation with Sweden, Finland, UNHCR, IMO, ICMPD (International Centre for Migration Policy Development), and others. 33 persons participated in training on issues such as reception of asylum seekers, temporary protection, EURODAC, admission procedures, subsidiary forms of protection, etc. Within the Phare project “Integrated Border Management Strategy”, 10 persons from the State Border Guard and 18 from the Office of Citizenship and Migration Affairs took part in the seminar “Interviewing Techniques: Cases under the Dublin Convention”. A series of seminars is planned within the Phare project “Asylum and Migration Management System” to be started in July 2002.

In 2001, 14 persons applied for asylum and one of them was granted refugee status. Altogether, 8 persons have been granted refugee status since 1998.

As regards police **co-operation in the fight against organised crime**, progress has been made in aligning legislation with EU requirements, including on organised criminal groups and trafficking in human beings. Preparations have been made for signing a co-operation agreement with Europol, and a series of bilateral co-operation agreements concluded. Police structures have been strengthened to fight money laundering and other forms of economic crime.

Alignment of legislation continued. In December 2001, Latvia signed the 1999 International Convention on *Suppression of Funding for Terrorism*, the ratification of which is expected by

July 2002. On 25 April 2002, amendments to the "*Criminal Law*", aligning Latvian legislation with regard to trafficking in human beings and organised criminal groups, came into force.

In order to envisage criminal liability of legal persons and define special penalties applied to legal persons, amendments to the "*Criminal Law*" are being drafted taking into account the provisions of the UN Convention against Transnational Organised Crime, the Council of Europe Criminal Law Convention on Corruption, as well as the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime. It is envisaged that legal persons should be, *inter alia*, liable for terrorism, financing of terrorism, corruption, trafficking in human beings and ecological crime. The amendments will be submitted to the Government by September 2002.

By August 2002, Latvia will accede to the Protocol against trafficking in human beings and to the Protocol against smuggling of migrants by land, sea and air, supplementing the United Nations Convention against Transnational Organized Crime.

To improve the legal basis for the protection of witnesses and victims, a Law on special procedural protection and special protection of persons is being drafted and will be ready by July.

In order to establish a legal framework for the use of DNA analyses in the fight against crime and to ensure comprehensive information exchange with the EU member states and Europol, a concept on the creation of the national DNA database and its use by the State Police has been drafted. Following the adoption of the concept, a legislative act will be prepared in order to establish a procedure for setting up and using the National DNA database for detection of criminal offences.

In order to meet the prerequisites for the conclusion of a co-operation agreement with Europol, amendments to the "*Personal Data Protection Law*" will be adopted by July 2002 (passed in the second reading in May). Conclusion of the agreement is expected by the end of 2002. The funding for setting up a division for cooperation with Europol (5 staff positions) has been requested in the budget of 2003. In April 2002, a specialized attaché of the Ministry of Interior was posted to The Hague to act as a liaison officer when the agreement is concluded.

Intergovernmental agreements have been concluded with Sweden (on development co-operation and technical assistance in the field of justice and home affairs), Belgium (on police co-operation), the Netherlands (on judicial co-operation), and Georgia (on cooperation in the fight against terrorism, illegal drug circulation and organized crime). Bilateral police co-operation agreements have been signed with Slovakia (on protection of witnesses and victims) and Russia.

In order to increase the efficiency of the development and co-ordination of state anti-crime policy, the Corruption and Crime Prevention Council chaired by the Prime Minister has been established by joining the Crime Prevention Council and the Corruption Prevention Council. Among the responsibilities of the Council is the supervision of the development of strategy for fighting and prevention of organised crime. The strategy will be developed within the framework of the Phare project "Prevention, Combating and Reducing of Organized Crime", the implementation of which will start in July 2002.

On 16 October 2001, the Government adopted an action plan for suppression of terrorism (*see also Chapter 27 - Common foreign and security policy*).

In order to strengthen the administrative capacity of the State Police, funding from the budget was increased in 2002. Salaries have increased by 11%. LVL 200 000 were allocated for the purchase of special investigation equipment for the Criminal Police Department (in 2001 – 170 000, in 2000 – 40 000). LVL 290 817 have been allocated for renovation of premises.

In order to increase the efficiency of police structures, reorganisation has continued. The Economic Police Bureau has been substantially reorganized and at present consists of 6

divisions: for the fight against criminal offences with regard to banks, credit institutions, intellectual property and laundering of proceeds from crime (22 employees); for the fight against fraud and money forgery (14 employees); for the fight against smuggling of goods and other values, illegal use and forgery of trademarks (11 employees); for analysis and statistics (11 employees); for the fight against cyber crime (7 employees); for pre-trial investigation (14 employees).

The number of staff positions at the Economic Police Bureau has increased from 39 to 83, and at the Forensic Centre from 87 to 94.

Besides the regular training within the Police School and the Police College of the Police Academy, a series of training activities in fighting various forms of crime has been organised. In co-operation with France, 16 police officers were trained in combating financial crime and forgeries related to food safety. In co-operation with Sweden, 1 person was trained in intellectual property rights. Within TAIEX, 3 persons attended a seminar on fighting corruption, and 2 persons – on protection of the euro against forgeries. One police officer participated in a meeting organised by Interpol on the fight against trafficking of women. 7 police officers attended seminars organised by Latvian commercial banks on the introduction of the euro and its security features, and on prevention of money laundering. In co-operation with local business associations, seminars on forged sugar packaging, the requirements for trade in meat and meat products, and on film distribution have been organised. Police officers have participated in seminars organised by Interpol, Europol, the Council of Europe, Finland, France, Norway, Spain, Sweden, the United Kingdom, and other countries on issues such as trafficking in human beings, drugs, car theft, cyber crime, money laundering, organised crime, human rights, police ethics.

In order to increase the capacity of the Border Guard to detain stolen vehicles on the border, training for 37 border guards has been organised by the Forensic Centre of the State Police on counterfeit vehicle documentation and counterfeit detection methods. An automated car license plate reading system operates at Terehova border control point. In co-operation with Russian border guards, 11 stolen vehicles have been detained on the border.

In order to improve the analytical capacity of the State Police, a Phare project proposal has been drafted. A decision has been taken to set up a new Analytical Division by merging the analytical units of the State Police in the first half of 2003, which is a precondition for the implementation of this project.

In order to further improve relations between the police and the public, a series of activities have been carried out by the State Police, including an information campaign on police work and the crime situation. Two TV programmes are financed by police, which attract an audience of 500 000. A special section has been created on the home page of the State Police with regard to integration into the EU. In May, as part of Europe Day, the results of the police work were presented to the public, and special equipment used by police was demonstrated. A series of anti-drug campaigns, such as "Police and Porsche against Drugs" and "For a Sober Mind", have been organized in schools.

Regarding **the fight against fraud and corruption**, the renewed *Corruption Prevention Programme* (adopted in May 2001) has been largely implemented. New legislative instruments have been developed, including the Law "On Procurement for Government and Municipal Needs" (in force since 1 January 2002), the Law "On Prevention of Conflict of Interest in Activities of Public Officials" (in force since 10 May 2002), the Law "On Initial Fixation of Property" (first reading in April, 2002), and the Law "On Financing of Political Parties" (adopted by the Cabinet of Ministers). Amendments to the "Criminal Law" made in order to complete the accession to the Council of Europe Criminal Law Convention on Corruption, are in force since 25 April 2002. The Law on the accession to the Civil Law Corruption Convention of the Council of Europe has been prepared and will be adopted by the Government by July 2002.

In order to create an effective implementing capacity and improved inter-institutional co-operation, the Corruption Prevention and Combating Bureau has been established following the adoption of the Law on the Bureau (in force since 1 May 2002). A series of seminars concerning the investigation of corruption cases have been held for judges, prosecutors, policemen and representatives of mass media within the Phare project (*see also Democracy and the rule of law –Anti-corruption measures*).

In order to designate a contact point in Latvia for co-operation with the EU Anti-fraud Office (OLAF), two meetings were held between the representatives of Latvian institutions and OLAF, during which issues such as OLAF's competencies with regard to the protection of the financial interests of the European Communities, as well as the establishment of the contact point were discussed. As a result, the Ministry of Finance will prepare a proposal for the development of the contact point for cooperation with OLAF, which will be submitted to the Government by 1 July (*see also Chapter 28 – Financial control*).

The Enforcement division of the National Customs Board has regularly supplied information upon OLAF's request within the framework of the Free Trade Agreement between Latvia and the EU.

In the field of **drugs**, implementation of the National drug prevention and drug control strategy continued. The strategy will be further improved within a Phare project. Preparations for participation in EMCDDA and Reitox, as well as the development of the National Focal Point have commenced. Cooperation between institutions has been strengthened. Particular attention is being paid to reducing the number of drug users and drug related crime.

The Government has adopted the draft law on accession to the 1995 Council of Europe Agreement on Illicit Traffic by Sea, implementing Article 17 of the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. After its adoption by the Saeima (expected by July), Latvia will be party to the main international conventions listed under the *acquis* in the field of drugs.

The necessary legal and institutional framework for the National Focal Point (NFP) is being developed. The budget proposal for a 5 year period has been drafted with the aim of developing the NFP in accordance with EMCDDA requirements. The requested amount is from LVL 56 246 in 2003 up to LVL 82 350 in 2007. A Decision of the Cabinet of Ministers (planned adoption in August 2002), which will define the status and the role of NFP, is being drafted.

Within the Phare project "EMCDDA collaboration with the Central and Eastern Europe countries", representatives of the Narcology Centre (appointed as the NFP) have taken part in a series of activities, including the seminar of European Focal Points, a national coordinators meeting of the European information system "Exchange of drug demand reduction activities", and training on the national action plan for the drug information system. Epidemiological indicators on infectious diseases and the death rate among drug users are being elaborated. The information map has been renewed.

In order to strengthen the capacity of institutions dealing with drug prevention and combating issues, regular training activities are carried out by the officers of the Drug Enforcement Bureau for territorial divisions of the State Police, the representatives of the State Border Guard, the Customs and others, on issues such as investigation of drug crimes, smuggling of drugs, precursor control and gathering of evidence. 279 border guards have been trained in detecting risk groups and in identifying narcotic substances. Regular training for teams working with juveniles and convicted persons has also been provided. The officers of the Drug Enforcement Bureau have participated in the training on drug combating policy in the European context within the ADEPT programme, as well as on prevention of drug addiction, provided by Israel.

Regular information exchange between the Drug Enforcement Bureau and the State Border Guard on control of persons included in the "risk group" and persons involved in illicit

trafficking of drugs, as well as between the Bureau and territorial police units on registered juvenile drug users, has been further improved. Within the regular framework, analytical reports on drugs are being prepared by the Drug Enforcement Bureau and provided to police units, prosecution, and courts upon request.

Within the Task Force on Organised Crime in the Baltic Sea Region, the Drug Enforcement Bureau has prepared a report on limitation of amphetamine consumption. The data were necessary for the establishment of a unified database to be used by member states.

Cooperation between the Customs and the Border Guard has been strengthened in order to improve the detection of drugs on the border. Joint smuggling prevention activities have been organised. Two drug-searching dogs have been trained at the Rezekne Border Guard School for Customs needs, and two Customs officers have learned how to work with these dogs. The Customs has started to use the data provided by the Border Guard information system *Mustangs* on persons and transport that have crossed the border.

In co-operation with France, 20 Customs officers have been trained on risk analysis and control of drugs and precursors. The database *Risk* has been installed in all regional anti-smuggling divisions and Customs officers trained to work with these databases. In co-operation with Belgium, an information campaign on the pre-arrival control system in Riga Free port has been carried out and the training on checking of containers organised. The database *Velkonis* has been installed for pre-arrival control.

In 2001, the Drug Enforcement Bureau detected 134 more drug-related crimes than in 2000. Drug detection on the border has also increased.

As regards **money laundering**, legislative improvements continued and the capacity of institutions has been strengthened.

The amendments to the Law “*On Prevention of Laundering of the Proceeds Derived from Crime*”, providing, *inter alia*, for the freezing of financial transactions linked to terrorism, are prepared for the final reading in the Saeima. In order to fully comply with the provisions of the new Directive 2001/97/EC, the amendments to the Law “*On Prevention of Laundering of the Proceeds Derived from Crime*” have been drafted and should come into force by the end of 2002.

Specialised divisions dealing with money laundering issues have been established in the Economic Police Bureau (7 staff positions) as well as in the Financial Police within the State Revenue Service (4 staff positions). In order to strengthen the capacity of the Financial Intelligence Unit (FIU), granting of additional budgetary resources is planned in 2003 to increase the staff number by 6. New data protection software of the FIU was launched in September 2001. In 2002 an additional LVL 20 000 were provided for the development of the IT system.

The number of materials forwarded by the FIU for further investigation has increased compared to previous years: 2 in 1998, 31 in 1999, 40 in 2000, 59 in 2001 and 25 in the beginning of 2002. By now, 37 criminal cases have been launched on the basis of the materials initially prepared by the FIU.

16 training courses for the employees of financial institutions and law enforcement officers were organised by the FIU in 2001, and 6 courses in the beginning of 2002. (*See also Chapter 4. Free movement of capital*).

As regards **customs co-operation**, the programme for Memoranda of Understanding for 1999-2002 has been developed. 5 new Memoranda of Understanding have been concluded in 2001 between the Customs and other Latvian institutions and businesses, and 5 more will be signed in 2002, including with the State Police.

At present, agreements on cooperation in customs issues have been concluded with 14 countries, including 5 EU member states (Denmark, Finland, Sweden, The Netherlands, and the United Kingdom).

On the basis of different co-operation agreements, access to Customs information is provided for authorised officials of the State Police, the State Border Guard, and the Financial Intelligence Unit.

Particular attention is being paid to the improvement of risk analysis. The database *Risks* was installed in all Regional Anti-smuggling Divisions and in the Enforcement Division of the National Customs Board.

Efforts on corruption prevention has been considerably strengthened, including the approval of a Code of Ethics, development of a training programme on prevention of corruption, rotation of officials exposed to a high corruption risk and double checking of their decisions.

Preparations for joining the Naples II Convention have commenced. The amendments to national legislation will be drafted. If necessary, bilateral agreements with neighbouring countries Estonia and Lithuania will be negotiated with regard to special forms of co-operation. (*See also Chapter 25. Customs Union*).

With regard to **judicial co-operation**, progress has been made in aligning legislation. The 1980 *Hague Convention on the Civil Aspects of International Child Abduction* is in force since 1 February 2002. The 1980 *Convention on the Recognition and Enforcement of Decisions Concerning Custody of Children* has been ratified and will come into force on 1 August 2002. On 14 March 2002 the draft law on accession to the *Convention drawn up on the basis of Article K.3 of the Treaty on European Union, relating to extradition between the Member States of the European Union* as well as the *Convention drawn up on the basis of Article K.3 of the Treaty on European Union, on simplified extradition procedure between the Member States of the European Union* passed the first reading in the Saeima. The draft law on accession to the *Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Co-operation in respect to Parental Responsibility and Measures for the Protection of Children*, has been adopted by the Government. Legislative amendments have been drafted in order to accede to the *Convention on the International Validity of Criminal Judgements*, which is planned by October 2002.

Amendments to the "Criminal Law", aligning Latvian legislation with regard to trafficking in human beings and organised criminal groups, are in force since 25 April 2002. Amendments to the *Criminal Procedure Code* made to align with the EU requirements on extradition, transfer of sentenced persons, recognition of decisions, etc., have passed the second reading in the Saeima and are expected to come into force by July 2002. Amendments to the *Criminal Law*, which provide for the criminal liability of legal persons, are being drafted and will be submitted to the Government by September 2002.

In the first quarter of 2002, there were 198 in-coming requests and 99 out-going requests for legal assistance. Additional funding has been requested for the year 2003 in order to increase the number of staff of the Judicial Cooperation Unit within the Ministry of Justice and for the computerisation of statistics. Within a Phare project, a manual for international legal co-operation for judges, as well as a National Action Plan have been prepared. In accordance with the Plan, regular training of judges and court staff on legal co-operation is provided.

25. Customs Union

In the area of customs considerable progress has been achieved in harmonisation of the Latvian legislation with the EU legislation. Latvia has continued to restructure the Customs

administration and to strengthen its administrative and operative capacity. Further efforts are being made to implement the Customs IT strategy.

On 2 May 2002 the Parliament adopted amendments to the "*Customs Law*" that provide several editorial changes in procedure titles and an explanation of the definition of authorised consignor and authorised consignee in the transit procedure, an extended explanation of the customs control measures for protection of intellectual property rights, as well as the procedure for currency recalculation. Adoption of these amendments ensures full compatibility with the Council Regulation 2913/92 establishing the Community Customs Code.

The law "*On Customs Duty (Tariffs)*" was amended on 22 November 2001 to be in accordance with the relevant EU legislation. The amendments ensure introduction of the General System of Preferences. They provide that export duty for cultural and antique articles and artworks will be cancelled and exportation of these goods will be regulated by licensing, and that the State Revenue Service (SRS) will apply tariff quotas, tariff suspensions and tariff ceilings upon accession.

The Ministry of Finance has drafted a new law "*On Customs Duty*" to ensure compatibility of the content, structure and terminology to the EU relief system. The law will come into force on 1 January 2003.

The Government also adopted the following regulations implementing the Commission's Regulation 2454/93: "*Procedure by which the Customs Regime – Re-exportation shall be Carried out*"; "*Procedure by which the Customs Regime – Abandonment to the Exchequer shall be Carried out*"; "*On Returned Goods*"; "*Procedure by which the Customs Regime – Destruction shall be Carried out*"; "*Procedures for the Performance of Customs Control Measures for the Protection of Intellectual Property*"; "*Regulations on Establishing and Adjusting TARIC (Common Community Tariff) Classification*" ; "*Customs Declaration Procedure and Simplified Clearance*"; "*Procedures for Application of a Summary Declaration and Temporary Storage of Goods*".

Over the past year Latvia has achieved substantial progress in modernisation of the customs services of the State Revenue Service (SRS). Modernization of Latvian Customs is based on the SRS Customs Business Strategy for the years 2001 – 2005. The strengthening of the customs system resulted in an increase of 15% in total revenue collected by the Latvian Customs in 2001 as compared to 2000. Moreover, duty collection was up by 28%.

In the year 2002 additional financial resources have been allocated for a total of 57 new staff positions in the National Customs Board (NCB) and the Financial Police. Customs were allocated 39 new staff positions – 28 for the established Special Operations Division and Investigation Division (established at the end of 2001), 7 for Enforcement Divisions and 4 for Post-clearance Audit Division. The Special Operations Division and the Investigation Division will come into full operation during the year 2002. The officers from the SRS Regional Customs Offices will also be assigned to the above-mentioned divisions. The selection of staff for these divisions is ongoing. The newly recruited employees are being trained in the Anti-smuggling center.

The situation has improved significantly in the area of **human resources**. The level of education in the Customs is consistently increasing. At present, 44% of the Customs employees have a university degree and a further 37% are currently studying at universities. With regard to the NCB, 74% of the 167 officials have higher education. The rotation of personnel is being practised. Last year 108 officials of the NCB attended training courses in the School of Public Administration.

Regarding customs **technical equipment and construction**, in 2001 the Government investment project "Customs Border Control Posts" provided modern computers and special technical equipment (x-ray for control of postal dispatches, drug, explosives and metal detectors, etc.) for

customs control. Funding for this project in 2002 is 2.5 times higher than in 2001. The project of construction of the Sanitary Border Inspection building for the customs control posts at Terehova has been developed. The project of construction of cargo control complexes in the railway stations of Daugavpils and Rezekne is being designed.

The Phare 2001 project will provide further assistance with regard to strengthening inspection infrastructure at seaports and railroad border crossings (due to start in October 2002). The construction of control infrastructure at the ports of Ventspils and Riga and at railroad stations of Rezekne, Daugavpils and Riga, as well as provision of relevant equipment (scales, refrigerators, mobile x-ray equipment) is envisaged.

Elaboration of the **Customs IT strategy** is ongoing with a view to completion by the end of July 2002. The programme providing the storage of information about customs procedures in the Data warehouse of the SRS was developed and implemented in 2001. The programme allows the merging of information of the Customs and Tax Administrations and gives access to the integrated information for authorised users. Agreements on the information exchange will be signed and relevant amendments in the legislation will be developed in order to extend the range of users of the Data warehouse outside the SRS. Signing of the agreements on the information exchange with the Sanitary Border Inspection, the State Border Guards and the State Police is planned.

In order to ensure compatibility of the Customs IT systems with Community systems, the Phare 2002 project "Customs Business Strategy and Customs Data Systems" has been elaborated.

Implementation of the ASYCUDA system has continued. In 2001 ASYCUDA was implemented in 33 customs control posts in Riga ensuring processing of 70 % of all customs declarations by the ASYCUDA system. By April 2002 the ASYCUDA system was implemented in 92 customs posts. Now the common, centralised and updated customs system is used in all border customs posts (on the roads, in the sea ports, in the airport and in the railway stations). In 2002 ASYCUDA systems will be installed in 15 remaining customs posts located in customs warehouses in Riga. Implementation of the ASYCUDA system has enabled optimisation of the number of customs posts to begin. At present, the number of the customs posts has been reduced by 51.

Implementation of the common customs system allows electronic lodging of customs declarations. At present, this is possible in 49 customs offices and about 20% of all customs declarations were submitted electronically in 2001.

The new type of customs duty payment compliant with the EU requirements - payment in advance - will be introduced and the relevant procedure of payment, accountancy and control will be developed. By July 2002 the EU compliant system of deferred payments will take effect.

Further simplification of customs procedures is still one of the top priorities for Latvian Customs. The criteria have been drawn up for traders to apply for the status of the authorised consignor/consignee and for the application of the simplified declaration (set forth in the Regulation "*On Procedure by which the Goods are Declared and the Simplified Clearance is Applied*", adopted on 5 March 2002).

Co-operation between Customs and different institutions has been further improved. 5 new Memoranda of Understanding (MoU) were concluded in 2001 and the signing of 5 MoU with Latvian institutions and businesses is planned in 2002. The draft Agreement on co-operation between the Sanitary Border Inspection and National Customs Board has been developed, providing that both parties co-operate in development and updating of technological schemes of the customs control posts, in drafting legislation, in exchange of information on possible offences on border crossing control and in training of the staff. Under the framework of the Phare 2000 project "Development of Integrated Latvian Border Management Strategy and Infrastructure" drafting of an integrated border management strategy, improvement of

cooperation of border control authorities and development of Customs and Sanitary Border Inspection control methods to meet EU requirements are being carried out.

In the area of **intellectual property protection**, regular training of customs officers takes place in cooperation with representatives of brand owners, public organisations and EU customs experts. Since September 2001 more than 60 customs officers have participated in the training (see also chapter 5. *Company Law*).

The **fight against fraud** is being enhanced. In 2001, the NCB Enforcement Division prepared materials and sent 91 cases to other relevant agencies for investigation, closed 206 cases and prepared 8 cases for trial. The Anti-smuggling Centre continues to show good results - in 2001 24 criminal cases connected with smuggling of oil products, spirits, cigarettes and food-stuffs were investigated, 4 cases were sent to the Customs Offences Prosecutors Unit to bring criminal cases. In 2001, prevention of false exports and fines collected in detected smuggling cases saved the state budget a total of LVL 24 million.

The number of detected cases of drug smuggling increases every year. In the year 2001 8 drug smuggling cases were detected, compared to only 4 cases in 2000. Co-operation with the State Border guards also contributes to customs work. In February-March one customs official participated in the training course "Restriction of Drug Dissemination" in Israel; in May 2002, courses "On Narcotic Drugs, Psychotropic Substances and Precursor Control" for 20 customs officials were organized by the International Economic Relations and Customs Institute (see also chapter 24. *Co-operation in the Fields of Justice and Home Affairs*).

The efficiency of post-importation audit has been improving. Compared to 2000, the increase in calculated surplus is 153.7%. As a result of detection of false exports, more than LVL 650 000 were saved in the state budget in 2001.

Particular attention is paid to the improvement of **risk analysis**. Within the Latvian-Belgian Twinning project an information campaign on the pre-arrival control system in Riga Freeport took place. In September 2001 a training seminar on the checking of containers was conducted. In November 2001, 20 customs officers were trained in *Risk analysis*. The database *Risks* was installed in all Regional Anti-smuggling Divisions and in the Enforcement Division of the NCB. The risk analysis carried out by anti smuggling divisions has considerably improved.

Significant progress has been made in the **corruption prevention** field. In accordance with the World Customs Organization (WCO) recommendations and in co-operation with Phare project experts, the Customs Officials Code of Ethics and Conduct was approved on 25 October 2001. It will form a part of the SRS Code of Ethics. The principles of customs ethics are a part of the basic training programme for customs officials and study programmes in the Customs College and Riga Technical University International Economic Relations and Customs Institute. The training programme for certification of customs brokers and declarants includes subjects of prevention of corruption and customs ethics.

The rotation of officials exposed to a high risk of corruption is being practised. The number of internal inquiries in Latvian Customs in 2001 was 103. 61 disciplinary cases were declared closed and 161 customs officers were disciplined. In 2001 3 customs officials were detained on the basis of suspicion of taking a bribe.

Within the Phare 2000 project "Legislation, Training and Information" the training programme for customs officials on prevention of corruption has been developed. 8 officials have been trained to conduct training courses in the framework of this programme.

Since 2001, once a year heads of the SRS Regional Customs Offices make an analysis of the risk in certain positions. The *double check* of decisions taken by the officials in high-risk positions is ensured. Anonymous opinion polls of the customs clients and persons who cross the border are

organised once a year. Since 1998 a hot-line (+371 7047555) has been in operation. The information is reviewed and investigated in all cases.

26. External Relations

Latvia continues to implement an open and liberal trade policy, which is based on the principles of the World Trade Organisation (WTO) and harmonised with the external economic policy of the European Union.

Latvia has concluded 11 Free Trade Agreements with 28 countries - 15 member states of the European Union and four states of the European Free Trade Association (EFTA), as well as with Lithuania, Estonia, the Czech Republic, Slovakia, Slovenia, Poland, Hungary, Turkey and Ukraine. On 21 September 2001 the FTA between Latvia and Bulgaria was initialled. The Government accepted the FTA between Latvia and Bulgaria on 26 February 2002. It is planned that the Agreement will enter into force in the second half of 2002. Latvia is continuing negotiations with Romania and the Faroe Islands. Latvia commenced negotiations on FTA with Israel in 2002. In 2001 80,8 % of Latvia's imports and 82,4 % of Latvia's exports were covered by Free Trade Agreements. By the date of accession Latvia is ready to denounce all the FTA's incompatible with the *acquis*.

Regarding the bilateral investment treaty (BIT) signed between Latvia and the United States, Latvia is currently analysing the treaty to identify possible inconsistencies with the *acquis*. Should such inconsistencies be identified, Latvia is ready to commence procedures to renegotiate the BIT provisions in order to harmonise the treaty with the *acquis*.

As regards common commercial policy, Latvia continues to align its tariffs with those of the EU. The tariffs applied by Latvia currently average 5.01 % on all products, 12.61 % on agricultural products, 8.04 % on fishery products and 2.47 % on industrial goods.

Latvia has continued to align its legislation on dual-use goods with the *acquis*, in particular with Regulation 1334/2000 on dual-use goods. Export, import and transit of dual-use goods in Latvia is controlled in accordance with Annex I of the Regulation 1334/2000, amended and updated by Regulation 2432/2001. A new list of strategic goods elaborated in conformity with Regulation 2432/2001 came into force on 26 March 2002. Amendments to Latvia's Export Control Regulation are currently under elaboration and will transpose requirements of Article 4, Article 16.2 as well as Annex IIIa (the licence form) of Regulation 1334/2000.

With regard to membership in the WTO, Latvia's international commitments on goods and services are generally harmonised with EU obligations. Latvia welcomes the new round of multilateral trade negotiations launched at Doha (Doha Development Agenda) and supports expeditious steps to proceed to actual negotiations in the areas of market access for non-agricultural products, rules, environment, dispute settlement understanding and trade-related aspects of intellectual property rights. Latvia notes good progress in the negotiations on agriculture and services and supports further progress, as well as the conclusion of the negotiations as foreseen by the Doha Ministerial Declaration. In the process of new negotiations Latvia continues close cooperation with the EU with the aim to harmonise its position with that of the European Union. Latvia also conducts consultations with the Commission concerning bilateral negotiations of Latvia with the countries acceding to the WTO (Russia, Ukraine etc.) and in relation to accession of Latvia to the GPA.

As regards development policy and humanitarian aid, a concept on development policy has been elaborated. The concept establishes a common framework for co-ordination of the development policy activities in Latvia and provides a basis for preparation of the development co-operation strategy.

Amendments to the law *"On Customs Duty (Tariffs)"* were adopted on 22 November 2001 introducing the General System of Preferences in conformity with the Commission's *"everything but arms"* initiative.

27. Common Foreign and Security Policy

Latvia has regularly aligned its positions with the EU statements and declarations, as well as with the EU common positions, when invited to do so. Latvia welcomes the EU decision to involve candidates at an early stage of the development of the European Security and Defence Policy. Latvia's contribution to the Helsinki Headline Goal initiative includes two mine counter-measure ships, one company of the Latvian battalion, as well as an Explosive Ordinance Disposal, a medical, and a military police unit. The Government has adopted an Action Plan for *"Combating Terrorism"* which is being implemented. In this connection, Latvia has signed the UN Convention for the Suppression of the Financing of Terrorism and is due to ratify it. The law *"On Sanction Regimes Imposed by International Organizations"* has been adopted as an umbrella instrument for the implementation of EU sanctions by Latvia. This is secured by the *"Criminal Law"* that foresees criminal liability for intentional violation of the regulatory enactments for the implementation of sanctions.

Latvia has successfully continued the regular political dialogue with the EU. It has participated actively in the framework of the Common Foreign and Security Policy (CFSP), including the meetings at the level of Political Directors, European Correspondents and Working Groups. Latvia continues to be an active participant of the Associated Correspondents Network.

Latvia has regularly aligned its positions with the EU statements and declarations. When invited to do so, Latvia has associated itself with the EU common positions, including those on the Federal Republic of Yugoslavia, Burma/Myanmar, Afghanistan, the Democratic Republic of Congo, Zimbabwe, and on the application of specific measures to combat terrorism.

Latvia has welcomed the decision of the EU to involve candidates at an early stage of the development of the European Security and Defence Policy (ESDP) in the EU + 15 format (i.e. non-EU European NATO members and the EU candidate states). Latvia has expressed its readiness to participate in the EU Police Mission in Bosnia and Herzegovina after the receipt of additional information on the financial and administrative implications of the operation.

The Saeima has consistently supported Latvia's participation in the international peacekeeping missions. On 31 January 2002 the Saeima approved the Government's proposal to deploy an air movement control team (together with the Danish contingent) in the US-led operation *Enduring Freedom* in the vicinity of Afghanistan.

The capabilities of Latvia's National Armed Forces to participate in the international peace operations are being raised. Latvia's contribution to the Helsinki Headline Goal initiative, based on its contribution to the NATO/PfP operations, includes: two mine counter-measure ships; one company of the Latvian battalion (LATBAT); an Explosive Ordinance Disposal unit (3+3 persons); a medical unit (5+5 persons); and a military police unit (5+5 persons).

On 16 October 2001 the Government adopted the Action Plan for *"Combating Terrorism"* designating a far-reaching package of legislative, executive and regulatory measures. The Action Plan foresees stepping up of intra-national and international co-operation and strengthening of legislative and administrative capacity in the areas of foreign policy; information exchange with the state security establishments of other anti-terrorism coalition states; the control of immigration process; export, import and transit control of strategic goods; air travel security; informing the society.

In the area of combating terrorism the Saeima has: added a section on “*International cooperation in the criminal judicial field*” to “*The Code of Criminal Procedure*” on 21 March 2002; amended the “*Credit Institution Law*” on 11 April 2002, allowing the national security institutions to receive information from credit institutions about the bank accounts, if such information is required; amended the law “*On State Security Establishments*” on 6 December 2001 pertaining to the competence of the national security institutions to deny licenses for the conduct of certain business activities that may threaten the national security of Latvia and the fulfilment of Latvia's international obligations; and amended the “*Customs Law*” on 2 May 2002, permitting the customs service to examine cargoes without the presence of their owner if the cargoes have heightened radiation levels or if there are reasonable suspicions that they contain goods of strategic significance.

Latvia has signed the *UN Convention for the Suppression of the Financing of Terrorism* on 18 December 2001. The Convention is due to be ratified by the Saeima.

Amendments to the law “*On Prevention of the Laundering of the Proceeds from Crime*” to ensure effective control of suspicious transfers of funds are prepared for the third (last) reading in the Saeima.

The law “*On Sanction Regimes Imposed by the International Organizations*” was adopted on 16 March 2000 as an umbrella instrument for the implementation of the EU sanctions in Latvia. On the basis of this law the Government adopts Regulations on the implementation of the respective EU Common Positions. State institutions competent in each of the specific cases safeguard the compliance with the restrictive measures in the territory of Latvia. The “*Criminal Law*” foresees criminal liability for intentional violation of the regulatory enactments for the implementation of sanctions.

Implementation of the law has been started with the adoption of the Regulation “*On the implementation of the sanction regime against Zimbabwe*” by the Government.

28. Financial Control

The legislation concerning the financial control of public institutions generally complies with the *acquis*. The necessary institutions that ensure the implementation of the legislation are functioning properly and are being constantly strengthened.

In the area of **internal financial control**, the draft law “*On Internal Audit*” has been elaborated and fine-tuned with a view to submitting it to the Government by July 2002. The law will set up the main principles for establishment, management and responsibilities of internal audit units in all state institutions.

The Regulation “*On Internal Audit in Public Agencies*” was adopted on 11 December 2001. The regulation defines the order for establishment of internal audit structures in public agencies.

Functionally independent internal audit units have been established within each ministry. At present, 196 auditors are working in the government sector. The Internal Audit Department of the Ministry of Finance effectively performs the functions of Internal Audit Council Secretariat.

The Internal Audit Department within the Ministry of Finance, the central institution in co-ordination and harmonisation of internal audit system, is being constantly strengthened. The number of staff will increase from 11 in 2001 to 14 by the end of 2002. Extensive training is provided for the personnel of the Department in the field of SAPARD accreditation and implementation, contract supervision (FIDIC) etc. The department works on elaborating a professional development plan for 2002 to enable regular and systematic training of all staff.

About 30 employees have been trained on monitoring principles and main principles for preparation of monitoring reports in the summer 2001 of within the framework of the Phare project. A target group for the training has been selected from the representatives of line ministries who are directly involved in project monitoring and preparation of monitoring reports. With the assistance provided by the World Bank, the Ministry of Finance developed the new software for the External Resources Monitoring System in November 2001. This project will improve public expenditure management, will support the National Administration in fulfilling functions and tasks assigned for the management of EU funded programmes and will be used for planning, project registration, project and programme implementation monitoring. It is expected that the new software will allow effectively performance of the assigned monitoring tasks. It is expected that the External Resources Monitoring System will be fully functional in the autumn of 2002.

Between July 2001 and April 2002, the Internal Audit Department cooperated with the Rural Support Service and the State Treasury and ensured implementation of the recommendations listed in SAPARD pre-accreditation reports. The Ministry of Finance is entitled to notify the European Commission of the implementation of the SAPARD Multi-annual Financial Agreement, as well as any changes in operating and staffing of the Rural Support Service and the State Treasury. Furthermore, the Ministry of Finance reports to the EC on any irregularities in ISPA and SAPARD programmes, which have been the subject of initial administrative or juridical investigations. Three reports on irregularities as well as the required additional information have been submitted to the OLAF. In addition, a database of discovered violations and cases of fraud has been established. The procedure for gathering and monitoring information about the irregularities was approved on 8 April 2002.

In May 2002, a seminar was organized on the keystones of the EU Anti-fraud Office (OLAF) activities and cooperation with member states in order to ensure the protection of the financial interests of the European Community, as well as against transnational organized crime, fraud and other irregularities. The representatives of the State Revenue Service, State Police, Prosecutor's General Office, Ministry of Environmental Protection and Regional Development, Ministry of Traffic, Ministry of Finance, Procurement Monitoring Office, as well as representatives from other state institutions participated in the seminar. The Ministry of Finance has undertaken to prepare proposals on the development of the main contact point for collaboration with the OLAF. It is foreseen that the issue on the development of contact points in Latvia will be submitted to the Government by 1 July 2002.

As regards **external financial control**, the law "*On the State Audit Office*" was approved in the Parliament on 9 May 2002. The new law provides that one of the tasks of the State Audit Office (SAO) is to control the income and expenditure of the state and local government budget, as well as the use of the resources allocated to the state and local governments by the EU and other international institutions, and that the SAO carries out audits in compliance with the International Auditing Standard. Furthermore, the SAO will be entitled to audit every element of the chain down to the final beneficiaries of the EU funds.

The State Audit Office (SAO) has developed into a supreme audit institution with good repute, high competence, integrity and fairness of performance. In order to improve the external audit system and to meet international auditing standards and best practice, the State Audit Office continues to implement its Strategic Development Plan for 2000-2005 in which strengthening of the SAO is being conducted.

In addition to the current 201 employees at the SAO, resources have been allocated to recruit 15 additional staff during 2002 to enable implementation of the new law and proper control of the EU Funds.

The UK twinning experts in the framework of the PHARE 2000 project assist the SAO in steering through strategic development initiatives. The project puts strong emphasis on building

the structure and human resources at the SAO, including training of the personnel and the management. A separate component focuses on strengthening of the IT dimension. Training for the 80 staff members in the financial and performance audit is under implementation and will be delivered by September 2002.

To meet the requirements for auditing of the EU pre-accession and structural EU Funds, the first pilot audits of implementation of PHARE and ISPA funds in the Environment Sector in Latvia between 1995-2000 were successfully completed in January 2002 in co-operation with the European Court of Auditors. The common audit methodology and techniques were tested and adopted.

In cooperation with the peer institutions of the EU member states and international bodies, extensive training is provided for SAO auditors. The SAO works on improving understanding and collaboration with local partners, such as the Ministry of Finance. Ties with the internal audit units of public administration in Latvia and abroad are constantly being strengthened.

In order to implement the concept of **managerial accountability** steps have been taken to ensure planning of budget of public agencies based on performance targets and enforce the use of performance contracts between ministry and state agency. The Regulation "*On Performance Contracts*" and the Regulation "*On Agency Annual Reporting*" were adopted by the Government in January 2002. First budget proposals for 2003 will be prepared in accordance with the performance targets in June 2002 as stipulated in the adopted Regulation "*On Transformation of State Non-profit Companies into Public Agencies*". The guidelines for all budgetary bodies on performance target setting are being developed, and training of staff is being organised during March – October 2002.

29. Financial and Budgetary Provisions

The Latvian authorities continue optimisation of the budget process, with strong emphasis on the medium term budgeting that will positively influence efficiency of utilisation of the public funds and ensure realisation of the Government's political priorities. In the area of the own resources system, the analysis of the *acquis* has been made and provisional calculations have been performed for each type of own resources.

In 2001 and in the beginning of 2002, the Latvian authorities continued optimisation of the budget process with strong emphasis on **medium term budgeting**. In order that the state's policy corresponds to the resources available in the state budget, on 26 September 2001 the Government approved the Order "*On Mid-term Budget Aims and Prior Development Directions*" for the years 2002-2006. On 9 October 2001 a methodical document "*Policy Planning Guidelines*" was adopted with the aim to adjust and improve the policy planning process. The Government adopted the Regulation "*On Consultative Council for Fiscal Policy*". The Consultative Council, involving representatives of both the private and public sectors, will give recommendations to the Government in order to improve fiscal policy and optimise the state budget.

On 2 March 2002 the Government adopted a timetable for drafting the law "*On State Budget for 2003*" and "*Macroeconomic development and fiscal policy guidelines for 2003-2007*". The Guidelines will provide a link between planning policy measures and budget and launching a system of reporting and evaluation of policy implementation. Currently, the Ministry of Finance is elaborating instructions on mid-term budgeting for the years 2003-2007.

Pursuant to the modified Latvian budget legislation, the "*State Budget Law*", adopted annually by the Government, includes a special addendum for long-term commitments to ensure full implementation of projects and measures, the duration of which exceeds one business year.

Long-term commitments of the “*State Budget Law*” also contain national co-financing for EU Pre-structural fund assistance in order to guarantee full realisation of the projects. Moreover, to provide more flexible and rational disposition of funds, there is the possibility of re-dividing financial resources among projects and for years according to the progress in project implementation and, if necessary, of making amendments to the annual “*State Budget Law*”.

The existing planning mechanism will enable planning of national co-financing for Structural and Cohesion Funds assistance, as well as allowing adequate flexibility for adjusting the financial tables.

Further progress has been achieved in terms of development of the supporting systems for budget planning and training of staff. Regarding forecasting capacities, under the framework of the Phare 1998 project a model for macroeconomic analysis was developed. An expenditure model of the central government and local government budget was elaborated. The database of the model is updated with the necessary information on a regular basis. Work on the elaboration of short-term expenditure forecasts of the state budget has been started. The possibilities for building a link between the fiscal and macroeconomic models have been explored. Under the framework of the same project, the IT system for budget planning has been improved.

A system for quick exchange of information between the institutions involved in the budget process is operating and is available for extensive use by managerial staff. Procurement and installation of the systems for accounting and administration of the state debt, forecasting and risk management and administration of financial resources have been completed.

Under the framework of the Phare 2000 project “Public Expenditure Management”, it is envisaged to elaborate the system of indicators of the achievements for the budget programmes. In collaboration with the Treasury the new budget classification will be implemented according to the Manual of Public Finance Statistics of the International Monetary Fund (2002). It is envisaged also to develop further the analytical framework for the participation of Latvia in the EU system of own resources.

Further assistance with regard to preparation for implementation of the Community policies is expected under the auspices of the Phare 2002 project “Building Capacity to Ensure Sound Financial Management of the EU Funds”.

In the context of the application of the **own resources system**, the inter-ministerial working group under horizontal management of the Ministry of Finance held several meetings in 2001 and at the beginning of 2002 to ensure overall co-ordination of activities of five working sub-groups, established in June 2001 based on types of own resources. Based on the analysis of the administrative conditions, comprehensive internal work plans for each sub-group have been elaborated for 2002. The plans encompass all the necessary activities to prepare for full-fledged participation in the own resources system after accession.

In the field of the VAT resource, discrepancies between the 6th VAT Directive and the Latvian legislation have been recognised in order to identify the necessary VAT resource base corrections and the impact on calculation of the weighted average rate. In addition, the impact of the requested derogation for the registration threshold for VAT purposes has been recognised so as to be able to calculate corrections and compensations to the VAT resource base. Based on the 2001 data, initial provisional calculations of the VAT resource base have been performed.

An all-embracing analysis (covering *inter alia* IT systems and customs control procedures) of the administrative conditions to be fulfilled in the future by the SRS in the context of the own resources system was conducted. Based on the 2001 data, initial provisional calculations of the customs resource have been performed.

The *acquis* on sugar market organisation has been scrutinised and a draft model for calculation and administration of sugar levies and export compensatory amounts has been developed.

The Treasury will open accounts for accounting purposes for each of the EU own resources. An account in the name of the European Commission for settlement purposes will also be opened within the Treasury.

In order to ensure proper overall co-ordination in the field of own resources upon accession, internal consultations were held with a view to envisaging financial means for the separate administrative unit in the Ministry of Finance when planning the budget for 2003, so that the unit is operational as of 1 January 2003.

In the course of 2001, there were three workshops on the issue of own resources organised by TAIEX, the TRANSFORM programme (German, Austrian and Finnish experts), and the Swedish Ministry of Finance.

Translation of the acquis

The translation of the *acquis communautaire* is performed by the Translation and Terminology Centre (TTC) established in 1996, which reports to the European Integration Bureau. The TTC is responsible mainly for the translation of the EU legislation into Latvian and the translation of Latvian legislation into English. Translation priorities are established in cooperation with the line ministries and approved for each quarter by the Council of Senior Officials.

For EU legislation translations the TTC employs 12 revisers, 9 terminologists, 4 in-house and 14 freelance translators and 4 translation assistants. For the translation of Latvian legislation into English the TTC employs 9 specialists. All translations produced by the TTC go through a terminology check and a revision stage.

Actually, more than 44 000 standard pages of EU legislation have been translated and fully revised into Latvian, of which 16 240 pages were translated between June 2001 and May 2002. Most of the translations have been done so far for the Ministry of Agriculture (53,8%), followed by the Ministry of Finance and the Ministry of Environmental Protection and Regional Development (5,4 % each). All the primary legislation of Latvia has been translated into English.

In the autumn of 2001 "The Consolidated Version of the Treaty Establishing the European Community and Treaty of Nice" (in Latvian) and "The Civil Law of Latvia" (in English) were published as hard copies and made available to all governmental institutions, public libraries and universities.

Terminology is an important part of the work done by the TTC. By May 2002 the TTC terminology database contained 40 117 terms. It is available through the Internet via the TTC home page. In the framework of a project with the Parliament of Latvia, the TTC participates in the elaboration of terminology for the *Eurovoc* Thesaurus.

D. 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.

Political criteria. The implementation of the “*Civil Service Law*” is ongoing to develop a **professional and stable civil service**. The confirmation of civil service posts and assignment of civil service status was completed in February. Since July 2001 the number of civil servants has increased from 26 781 to 27 510. The civil servants performance appraisal system is in place. The first annual performance appraisal round was completed in December 2001. The methodology for evaluation of civil service grades was adopted by the Government on 23 October 2001 to provide the basis for the pay scale, ensuring equal pay for work of equal value. In 90 out of 92 state institutions the evaluation and determination of the qualification grades has been completed.

For implementation of the unified pay reform, the Regulation “*On Salary, Qualification Grades and Allowances for Civil Servants and Employees of Public Administration Institutions*” is being elaborated. The consideration of the Regulations scheduled for September 2002 will be closely related to the process of budgeting for 2003.

Latvia has a well-established training system for civil servants, which is operational since 1993. During the year 2001, 9577 civil servants attended training courses at the Latvian School of Public Administration.

Strengthening of the **judicial system** has continued. Funding for the judiciary increased by 20%. The new “*Criminal Procedure Law*” has been drafted, and is expected to enter into force in 2004. Meanwhile, amendments to the existing “*Criminal Procedure Code*” aimed at simplifying and modernising the criminal procedure, as well as providing effective enforcement of international judicial co-operation, have passed the second reading in the Saeima. Swifter consideration of cases is also provided by the amendments to the law “*On Judicial Power*”, adopted by the Government. Effective and transparent administrative procedure is provided for in the “*Administrative Procedure Law*” adopted in October 2001. The law “*On Sworn Court Bailiffs*”, which provides for ensuring the enforcement of court decisions, has been passed by the Saeima in the first reading and will be adopted by October 2002.

Modernisation of courts has continued, which envisages the establishing of the unified information exchange network between all courts and between courts and other state institutions. Regular training of judges has continued, in particular in the field of EU and international law. Judges receive the same social guarantees and benefits as civil servants, as well as compulsory health and life insurance provided by the state. The concept of judges' salaries, drafted in March 2002, provides for a gradual increase in salaries substantially above the level of senior civil servants.

The legal framework for the fight against **corruption** has been considerably improved. The law “*On Prevention of Conflict of Interest in Activities of Public Officials*” aiming at improving the control of public officials, is in force since 10 May 2002. On 25 April, the amendments to the “*Criminal Law*” to complete the accession to the *Council of Europe Criminal Law Convention on Corruption*, were adopted. The law “*On Initial Fixation of Property*”, which establishes a threshold for submission of declarations on property and excludes the possibility of referring to savings before the time of initial fixation of property, was adopted by the Saeima in the first reading. The law “*On Financing of Political Parties*” (adopted by the Committee of Cabinet of Ministers) facilitates the separation of business and political elites. The law on the accession to the *Civil Law Corruption Convention of the Council of Europe* has been submitted to the Government. On 1 May 2002, the law “*On the Corruption Prevention and Combating Bureau*”

entered into force. The Bureau will start working on 1 July 2002, and will be the central institution dealing with corruption prevention and the fight against corruption.

Human rights and the protection of minorities: The law “*On the Society Integration Foundation*” was adopted on 5 July 2001; the Foundation is fully operational; its funding increased in 2002; 21 project were supported by the Foundation last year; 390 project applications have been submitted for approval in the first half of 2002. From 1996 to May 2002, a total of 53 254 persons have attended the Latvian language courses, which are free of charge, organised by the National Programme for Latvian Language Training (NPLLT). The number of naturalisation applications has increased in the beginning of 2002 due to the free language courses and the information campaign. The state continues to support transition to the secondary education in the state language by financing further education for teachers, allocating bonus payments to salaries, purchasing teaching material, producing teaching aids and informing the public about the reform. On 9 May 2002, the Parliament adopted amendments to the Election laws deleting the requirement of state language proficiency for persons running for elected office. On 30 April 2002, the Parliament adopted amendments to the Constitution aimed at strengthening the status of the state language. On 6 December 2001, the Latvian Parliament ratified the European Social Charter. On 30 April 2002, the Government signed Protocol No. 13 to the Convention for the Protection of Human Rights and Fundamental Freedoms, concerning the abolition of the death penalty in all circumstances.

Economic criteria: According to the regulations for privatisation of the Latvian Shipping Company (*Lasco*) the public offer of 32% of *Lasco* shares for privatisation vouchers was completed on 22 March. The next step in the privatisation process will be the offering of 51% of *Lasco* shares for money in a public offer at Riga Stock Exchange. The sale of these shares in auction is expected by mid-2002.

The public offer of the remaining state-owned 3% shares in the joint stock gas company *Latvijas Gaze* was successfully completed in February 2002.

The completion of privatisation of joint stock companies *Ventspils Nafta* and *Latvijas Krajbanka* is planned by the end of 2002 and basic conditions for privatisation of the shares of the state capital have been elaborated.

The Latvian Privatisation Agency will be closed down by the end of 2002.

Registration of land properties in the Cadastral register is completed, covering 100% of the total area of Latvia

The **free movement of goods** sector is in line with the *acquis*. Metrology legislation has been amended and completed; the administrative capacity of relevant institutions in this field has increased. Standardisation and accreditation institutions operate effectively, as the conformity assessment of the Latvian accreditation system operates on an international level since 2001. Progress has also been achieved in the adoption of standards. By conclusion of the Protocol to the European Agreement on Conformity Assessment and Acceptance of Industrial Products (PECA) the technical barriers to trade have been eliminated in several areas. New sectoral legislation was adopted in 2001 concerning chemicals, cosmetics, medical equipment, explosives, food safety, and others. The screening of Latvia's legislation in the non-harmonised area to ensure compliance with Articles 28-30 of the EC Treaty continues.

In the field of **public procurement** the new law “*On Procurement for Government and Municipal Needs*” came into force in January 2002. The Regulations of the Cabinet of Ministers for the implementation of the rules of the new law have also been adopted. The new independent Procurement Monitoring Bureau started to operate in January 2002.

Regarding the **free movement of persons**, in the area of mutual recognition of professional qualifications, the legislation was largely harmonised with the General System Directives by the

adoption of the law “*On Regulated Professions and Recognition of Professional Qualifications*” on 20 June 2001. In order to transpose the Sectoral Directives, the Government on 19 February 2002 adopted Regulations on minimal requirements of educational programmes for the acquisition of the professional qualifications of dentist, pharmacist, nurse, midwife, as well veterinarian professional qualification. The Cabinet of Ministers Committee accepted the Regulation “Minimal Requirements of Educational Programmes for the Acquisition of Professional Qualification of Architect” on 29 April 2002. The draft Regulation “*Minimal Requirements of Educational Programmes for the Acquisition of the Professional Qualification of Medical Doctor*” has been prepared and will be adopted by the end of 2002. The administrative capacity of institutions involved in the recognition of professional qualifications has been strengthened. The work to prepare for the co-ordination of social security schemes has continued.

Free movement of services: A unified and independent supervisor was created in July 2001 with the merging of the Banking Supervision Department, the Insurance Supervision Inspectorate and the Securities Market Commission into the Financial and Capital Market Commission (FCMC). During the second half of 2001 and in the beginning of 2002, the harmonisation of legislation in the field of financial and capital market with the directives and recommendations has continued. The completion of outstanding measures to achieve full compliance with the *acquis* is planned by 1 January 2003.

In the area of **data protection**, amendments to the law “*On Protection of Data of Natural Persons*” have been adopted by the Parliament in the 2nd reading with a view to ensure full implementation of Directive 95/46/EC and compliance with the EU requirements on the degree of independence of the State Data Inspectorate.

Free movement of capital: On 23 November 2001, the Council of the Financial and Capital Market Commission approved the *Guidelines for the Formulation of Procedures for Identifying Clients and Unusual and Suspicious Financial Transactions*. The new Guidelines pertain not only to credit institutions but also to credit unions, brokerage firms, investment companies, insurers, depository, stock exchanges and private pension funds. To prevent financing of terrorism, amendments to the law “*On Prevention of the Legalization of the Proceeds Derived from Criminal Activity*” were adopted by the Parliament in the 2nd reading in February 2002. To ensure further compliance with the Directive 91/308/EEC and FATF recommendations, amendments to the law “*On Prevention of the Legalization of the Proceeds Derived from Criminal Activity*” have been elaborated and will be approved by the end of the year.

In the area of **company law**, the “*Commercial Law*” entered into force on 1 January 2002. The amendments to the “*Commercial Law*” providing for the protection of minority shareholders became effective on 15 March 2002. A number of regulations were adopted to ensure the implementation of the law. As of January 2002 new enterprises are established in accordance with the “*Commercial Law*”. The administrative capacity of intellectual property rights legislation enforcement bodies has been strengthened. As a result of reorganisation, the Audio, Video and Computer Piracy Combat Division was established (22 employees) in the Economic Police Bureau in March 2002. Two additional staff positions have been allocated to the Intellectual property protection division of the SRS National Customs Board. The development of the electronic database for protection of trademarks has started. Regular training for customs officers takes place in cooperation with representatives of brand owners, public organisations and EU customs experts. In the framework of the Twinning project “Integration into EU: Harmonization of Legislation” training was organised for police, prosecutors and judges, Customs officials and experts from the Expertise Centre in the State Police. A Manual for Customs has been elaborated and a Manual for Police and Prosecutors is under preparation.

In the year 2001 Latvia developed the **agricultural sector**. Particular progress was made in the veterinary field, rural development and preparations for the implementation of the Common Agricultural Policy.

In order to set up a Paying Agency in Latvia, a working group for merging of the Rural Support Service (RSS) and the Agricultural Market Intervention Agency (AMIA) has been established. The merging of both institutions is planned by the end of 2002. In order to implement the Integrated Administration and Control System in Latvia, on 27 December 2001 the Government adopted the Regulation "*On Implementation of IACS*" defining the main elements of IACS implementation in Latvia: computerised database, Land Register, Animal Register and integrated control system. A detailed action plan for implementation of the Common Market Organisations has been elaborated by Latvia providing for a schedule of legislative amendments and administrative actions. The harmonisation of legislation was continued in implementation of market policy as regards the arable crops, sugar, beef and dairy sectors, as well as in the fruits and vegetables and wine sectors.

In order to facilitate the preparatory work on establishing the administration system of CAP management mechanisms in Latvia, in January 2002 three new structural units of the Rural Support Service became operational – the EU Direct Support Department, the EAGGF division within the Finance Department and the IACS division within the Information Department. In 2002, the number of staff in RSS has increased by 24% compared with 2000, and respective budget appropriations have increased by 70% compared with 2000, to satisfy the growing need for administrative capacity required for the management and implementation of different support schemes, including the SAPARD Programme.

In 2001 state support for agriculture continued to increase, as the "*Agricultural Law*" provides that 3% of annual budget expenditure shall be transferred to subsidies. The main targets of this support are the modernisation of technologies, administration of quality in production and realisation processes, as well as promotion and development of the market. The implementation of the SAPARD support programme began in December 2001. In March 2002 the long-term preferential crediting programme started, thus increasing the opportunities for producers to receive financial means in order to develop agricultural and rural development projects.

Since September 2001, considerable progress has been made regarding the transposition and implementation of EU legislation in the veterinary field. The horizontal legislation has already been transposed and important steps in alignment have been taken as regards animal welfare, animal waste treatment, BSE control, identification and registration of animals, ANIMO system and animal health. Phytosanitary legislation is mostly in line with the *acquis* by adoption of the plant passport system in Latvia.

The administrative capacity of the supervision and control institution of the food chain safety in Latvia – the Food and Veterinary Service of the Ministry of Agriculture – has been continuously strengthened. The number of inspectors was increased by 425 (57%) compared with 2001 mainly due to an increase in the functions of the Food and Veterinary Service, which, starting from 2002, carries out control of the whole food chain "from stable to table". Regular training is provided for all veterinary and phytosanitary inspectors. Regarding phytosanitary control, the reorganisation of the State Plant Protection Service was completed in accordance with the *acquis*.

In the **fisheries sector** attention was paid mainly to increasing the administrative capacity of all institutions involved in the fisheries administration. Important steps have been taken in 2001 as regards resources management, inspection and control. All Latvian vessels fishing in EU waters are already equipped with satellite tracking devices. The remaining Latvian fishing vessels with overall length of more than 24 meters will be thus equipped by 1 January 2003. In the framework of the bilateral Latvian – Danish technical assistance project, the Vessel Monitoring System in Latvia is currently being developed. In April 2002, the installation of main software

(Terravision, Oracle, Mapinfo), as well as testing and commissioning of the system, began. As of June 2002, the FMC is be able to receive signals from the fishing vessel satellite Inmarsat C transceivers. In 2001, the National Board of Fisheries elaborated the *Fishing Fleet Development Programme*, which sets up the necessary measures and actions for fleet restructuring and modernisation. 70% of all fishing vessels have already been re-measured by the Latvian Marine Administration of the Ministry of Transport according to the *acquis* requirements, while re-measurement of all vessels will be finished by the end of 2002.

Legislative alignment and strengthening of administrative capacity continued in the field of **transport**. Amendments to the law “*On Carriage by Road*” were adopted by the Saeima on 9 May 2002, providing the basis for secondary legislation transposing requirements on speed limiting devices, on the use of vehicles hired without drivers for the carriage of goods by road, and on the own-account operations. For adapting social legislation the Regulation “*On Requirements Regarding Driving and Rest Hours and Their Registration for Drivers Driving Vehicles that Correspond to Driving Licence of C1, D1, C and D Category*” was adopted on 26 March 2002. To harmonise the minimal tax rates, amendments to the law “*On Annual Vehicle Tax*” will be adopted by the end of 2002. Several pieces of legislation were adopted to align with the *acquis* requirements concerning technical equipment. A number of legislation was adopted to define procedures of appointment, examination and professional qualification of safety advisers in the field of transport of dangerous goods. The safety adviser institution for the transport of dangerous goods was introduced in January 2002. To improve the controlling capacity, the reorganisation of the Road Transport Administration will be carried out by the end of 2002.

In the area of railways, amendments to the law “*On Railways*” will be adopted by the end of 2002 to transpose Directive 96/48/EC a new railway infrastructure package directives. In the framework of the restructuring of the “Latvian Railway”, a separate Passenger Carriage Operator for inland carriage was established on 1 January 2002.

In the area of air transport, the amendments to the law “*On Aviation*” have been sent for inter-ministerial co-ordination with an aim of determining the legal status of the independent accident and incident investigation body.

The “*Maritime Code*” and the “*Maritime Administration and Maritime Safety Law*” have been submitted to the Saeima and will be adopted in July 2002. The performance of Latvia as a flag state administration has improved. The detention rate of Latvian (inspected) vessels detained within the Paris Memorandum of Understanding on Port State Control has decreased from 7,7% in 2000 to 5% in 2001. The same level of performance in the Port State Control has been maintained. On 9 May 2002 Latvia became a co-operative member of the Paris Memorandum of Understanding on Port State Control.

Taxation. In the field of VAT amendments to the law “*On Value Added Tax*” were adopted by the Parliament on 22 November 2001 to provide for application of a reduced VAT rate of 9% for supply of goods and services that were previously subject to exemption, as well as to ensure full implementation of Directives 79/1072/EEC and 86/560/EEC (refund to foreign legal persons of the value added tax paid on goods and services purchased in Latvia) as of 1 January 2003. Amendments to the laws “*On the Application of Taxes in Free Ports and Special Economic Zones*”, “*On Riga Free Port*” and “*On Ventspils Free Port*” have been elaborated to align these laws with EC VAT law and the Code of Conduct for Business Taxation. With regard to direct taxation, Directives 90/435/EEC and 90/434/EEC will be implemented and adopted in the set of laws together with the “*State budget Law*” for 2003. With regard to excise tax on mineral oils and alcoholic beverages, the EU defined minimum levels are in general already applied. The only exemptions are excise tax rates on beer and gas oil, kerosene and heavy fuel oil that will be brought into compliance according to the transitional provisions. Regarding excise tax on cigarettes, the Ministry of Finance has prepared a concept paper proposing several approaches

for introducing the combined excise tax for cigarettes and increasing it up to the level required by the Directives.

The capacity tax administration is being constantly strengthened. The modernisation of the State Revenue Service has been continuing through the SRS Modernisation project 1998-2002, SRS investment project, Phare projects, and the bilateral co-operation programme with Denmark. Introduction of a three level organisational structure has continued. The SRS Tax Administration Strategy for 2002-2004 was developed and approved by the SRS Internal Order on 27 December 2001. To improve the quality of services provided to the taxpayers, establishment of taxpayers' service halls has continued in 2001 and in the beginning of 2002.

In the area of the development of IT systems, the Electronic Filing System became operational in July 2001. Development of a tax enforcement information system has been completed and the system was launched in 2001. The data warehouse analysis system "*Taxpayers profiling*" was developed and launched in 2001 in order to improve tax control.

Since the last Regular Report, Latvia has continued to make considerable progress in the area of **statistics** and improved statistical infrastructure in compliance with the EU statistical requirements. In 2002 the budget of the Central Statistical Bureau and its 27 regional offices has been increased by 37.8%, reaching LVL 2 037 149. The statistical infrastructure is improved both in terms of further compliance with the *acquis* as well as in terms of wider co-operation with more than 80 various registers, databases and information systems maintained by other state agencies. After the conduct of the Population Census in 2000 and the Agriculture Census in 2001, the CSB collects all the required information on regional and local level according to the *acquis*.

The transposition of the *acquis* in the field of **social policy and employment** is almost completed with the adoption of the law "*On Protection of Employees in the Event of Insolvency of Their Employer*". The new "*Labour Law*" transposes the majority of the labour law *acquis*. The law "*On Protection of Employees in the Event of the Insolvency of Their Employer*" aligns the legislation with Directive 80/987/EEC. The Saeima adopted the law "*On Assistance to Job-Seekers and Unemployed Persons*" on 9 May 2002. The new "*Labour Protection Law*", transposing the framework directive on health and safety at work, has come into force. A number of regulations have been adopted in the field of occupational health and safety. As regards social dialogue, the Saeima considered the draft law "*On Labour Disputes Settlement*" in the 1st reading on 7 March 2002. Concerning equality of treatment for women and men, following the adoption of the *Concept on Gender Equality* in October 2001, the Government has adopted the Action Plan for the Implementation of the Concept in the year 2002. The Action Plan for the implementation of the *Public Health Strategy* is being elaborated. A well-organised system of epidemiological surveillance and control of infectious diseases with clearly defined competence and responsibility of the involved institutions has been developed. The main efforts to upgrade administrative capacity in the area included the training of employees of the State Labour Inspectorate and the State Employment Service, as well as preparation for management of the European Social Fund. A State agency, the Insolvency Administration, has been established. The Administration has the functions of the guarantee institution, as well as supervising of insolvency processes.

In order to prepare for the internal **energy** market, the "*Energy Policy in the Electricity Sector*" was adopted in September 2001. In the framework of the restructuring of the *Latvenergo* a separate legal entity exercising the functions of transmission system operator was registered in December 2001. The "*Gas Market Liberalisation Concept*" was approved by the Government on 23 October 2001 providing the legal preconditions for third party access and designation of eligible customers as well as eliminating the existing price distortions between the groups of consumers. The privatisation of the *Latvijas Gaze* was completed in February 2002. The regulatory authority - Public Utilities Commission is operational since September 2001. New

methodologies for calculation of tariffs for electricity and gas services will be defined the end of 2002.

The adoption of legislation has been completed to ensure implementation of the “*Concept on Formation of the State Oil Product Reserve*”. The Concept obliges entrepreneurs to create and maintain 60 days oil product stock and the State 30 days stock by 31 December 2009.

As regards energy efficiency and renewable energy, new legislation has been adopted transposing the Directive 2001/77/EEC. Regarding nuclear safety and radiation, the *acquis* is almost transposed. The recommendations contained in the Council report “*Nuclear Safety in the Context of Enlargement*” is being implemented by adoption of number of regulations. Preparations for decommissioning of the Salaspils Nuclear Reactor are ongoing.

Telecommunications and information technologies: Most of the *acquis* requirements are transposed in the Latvian legislation with the adoption of the law “*On Telecommunications*”. Full liberalization of the telecommunications market will be achieved in January 2003. The secondary legislation is under elaboration to provide for implementation of the law “*On Telecommunications*”. The regulatory authority- Public Utilities Commission is operational since September 2001. It is legally and functionally independent from network operators, service and equipment providers.

Amendments to the “*Postal Law*” will be adopted by the end of 2002 transposing the *acquis* concerning the licensing regime and Universal Service Obligation.

In the **audio-visual sector**, the amendments to the law “*On Radio and Television*” adopted in February 2001 now ensure almost full compliance with the principles of the EC Treaty and requirements of the Directive “*Television without Frontiers*”. The remaining amendments to the law to ensure full compliance with the *acquis* have been prepared and submitted to the Government.

Regional policy and structural instruments: The “*Regional Development Law*” defining general framework for regional policy was adopted on 21 March 2002. As regards the institutional structure for the Structural Funds and the Cohesion Fund management, the Government on 5 February 2002 designated the Ministry of Finance as the Managing Authority of the Structural Funds and the Cohesion Fund. The State Treasury has been designated as the Paying Authority of the Structural Funds and the Cohesion Fund. A number of Partner Institutions have been designated- the Regional Policy and Planning Directorate of the Ministry of Finance, the Ministry of Welfare, and the Ministry of Agriculture. Two Implementing Bodies have been designated concerning implementation of the Cohesion Fund - the Ministry of Environmental Protection and Regional Development and the Ministry of Transport.

To define the main tasks and responsibilities of the Managing Authority, Paying Authority, and Partner Institutions, the Government on 19 March 2002 adopted “*The Guidelines on the management, monitoring, evaluation and control of EU Structural Instruments*”. They define also an indicative list of Intermediate Bodies. On the basis of the Guidelines the Regulation “*On the management, monitoring, evaluation and control of the Structural Funds and Cohesion Fund*” is being elaborated and will be approved by the Government by 1 July 2003. The Regulation will describe the allocations of functions and the organisational relationship between the Managing Authority and Paying Authority, Partner Institutions and Intermediate Bodies.

To develop programming capacity, the National Development Plan was approved by the Government on 11 December 2001. On the basis of the National Development Plan, preparation of the Development Plan was started in January 2002 to serve as the Draft Single Programming Document. The Development Plan will be adopted by the Government in October and submitted to the European Commission by the end of 2002. The institutional structure for the preparation of the Development Plan ensures involvement of the planning regions and socio-economic partners according to the principle of partnership. The ex-ante evaluation of the Development

Plan is being carried out between June and October 2002 with the support of the Phare funds under the project "Development of the Institutional and Administrative Capacity for Regional Development".

Much work has been devoted to the transposition of the **environmental** *acquis* to complete the transposition by the end of 2002. As regards the access to environmental information, amendments to the law "*On Environmental Protection*" completing the transposition of Directive 90/313/EEC have been adopted. The Århus Convention was ratified on 18 April 2002. The amendments to the law "*On Environmental Impact Assessment*" in order to harmonise provisions related to informing the public on development consent are under elaboration and will be adopted by the end of 2002. In the area of waste management, the "*Waste Management Law*" transposes the basic requirements for Waste Framework and Hazardous Waste Directives. Severe regulations were adopted covering issues regarding waste oils, polychlorinated biphenyls and polychlorinated terphenyls, batteries and accumulators, as well as directives on titanium dioxide. The Regulation fully transposing Landfills of Waste Directive has been adopted. To ensure full alignment with Directive 94/62/EC, the "*Packaging Law*" and respective Regulations has been adopted. In the sector of chemicals, the Regulations transposing Directive 1999/45/EC and Directive 87/217/EEC have been adopted. In the water sector, the draft "*Water Management Law*" transposing the Water Framework Directive was adopted by the Saeima at the 2nd reading on 30 May 2002. The "*Regulation on Water Emissions of Pollutants*" fully transposing the Dangerous Substances Directive, its daughter directives, the Groundwater Directive and the Urban Wastewater Directive was adopted on 22 January 2002. The amendments to the Regulation "*Obligatory Requirements for the Harmlessness of Drinking Water*" transposing Directive 98/83/EC has been elaborated. The administrative capacity at all levels has been strengthened. The training of inspectors of the Regional Environmental Boards has been carried out. The Nature Protection Board started to operate in May 2002. The Sustainable Development Council was established in March 2002.

Consumer and health protection A Division for Surveillance of Advertising dealing with misleading and comparative advertising issues has been set up in the Consumer Rights Protection Centre (CRPC). Three CRPC regional offices have been set up in Tukums, Jelgava and Daugavpils in 2002. The personnel of the CRPC and the Consumer Rights Protection Division of the Ministry of Economics have participated in educational seminars. Further assistance with regard to strengthening operational capacity of the administrative structures involved in market surveillance will be provided within the framework of the Phare 2002 project "Market surveillance system in the non-food area".

Justice and home affairs: Implementation of the Schengen action plan has continued. Police structures have been strengthened to fight cyber-crime, money laundering and other forms of economic crime. The number of staff positions at the Economic Police Bureau has increased from 39 to 83, and at the Forensic Centre from 87 to 94. Salaries have increased by 11%. Regular training is provided at the Police School and the Police College of the Police Academy. Within the framework of international cooperation, police officers took part in a series of seminars, for example, on fighting economic crime, cyber-crime, trafficking in human beings and drugs. The State Police has trained 37 border guards in detecting stolen vehicles. The Drug Enforcement Bureau has trained 279 border guards in detecting risk groups and identifying narcotic substances Regular training in combating drug related crimes is also carried out for territorial divisions of the State Police, and the Customs. The Financial Intelligence Unit provides training for the law enforcement bodies on preventing money laundering. Information exchange among the law enforcement bodies has been improved on the basis of mutual cooperation agreements.

In order to conclude a co-operation agreement with Europol expected by the end of 2002, amendments to the "*Personal Data Protection Law*" will be adopted by July 2002. The funding for setting up a division for cooperation with Europol (5 staff positions) has been requested in

the budget of 2003. In April 2002, a specialized attaché of the Ministry of Interior was posted to The Hague.

Preparations for participation in EMCDDA and Reitox have commenced. A Decision of the Cabinet of Ministers (planned adoption in August 2002) is being drafted, which will define the status and the role of the National Focal Point. The budget proposal for a period of 5 years has been drafted with the aim of developing the NFP in accordance with EMCDDA requirements.

Alignment with the *acquis* in the field of visas, migration and asylum has been largely completed. The “*Asylum Law*” has been adopted and will enter into force on 1 September 2002. The Government adopted the “*Immigration Law*” on 28 May 2002. Amendments to the Regulation “*On the Procedure of Issuing Visas*” implementing the decision Sch/Com-ex(93)21 are in force since 27 March 2002. At present, a mutual visa-free regime has been established with 15 states mentioned in the Annex II of CR 539/2001, and with 2 states Latvia applies a visa-free regime unilaterally. Readmission agreements have been concluded with 23 countries.

To improve the efficiency of institutions dealing with migration and asylum issues, the Immigration Service within the State Border Guard was established in January 2002. It is responsible for identification and interviewing of asylum seekers, as well as extradition of illegal immigrants, and works in close cooperation with the Office of Citizenship and Migration Affairs responsible for the reception of asylum seekers. The development of a Unified Visa Information System (UVIS) continued in order to supplement it with an Invitation Database and Entry Prohibition Database. These databases should start operating on 1 July 2002. 38 out of 42 border crossings on the external border have on-line connection to UVIS.

Preparation for future participation in the Schengen Information System continued by developing national databases and registers. The concept for the creation of the division of the National Schengen Information System and SIRENE Bureau has been drafted.

Strengthening of control at the future external border has continued. In 2002, LVL 8.489 million from the state budget (an increase of 1.215 million compared to 2001) and LVL 1.823 million from Phare funding were allocated for strengthening of the Eastern border. The legislative basis has been established in order to implement the decision to extend the responsibility of border guards to the entire border, and a coordinated management of the sea border has been launched. A project proposal for the State Investment Programme “Establishment of the Sea Border Video Surveillance System” (which will be compatible with the Sea Radiolocation Surveillance System of the Navy) with funding of LVL 3.469 million has been elaborated in order to establish an integrated sea surveillance system. An integrated border management strategy has been drafted.

With regard to judicial co-operation in civil matters, the 1980 *Hague Convention on the Civil Aspects of International Child Abduction* is in force since 1 February 2002. The 1980 *Convention on the Recognition and Enforcement of Decisions Concerning Custody of Children* has been ratified and will come into force on 1 August 2002.

Customs union: Amendments to the law “*On Customs Duty (Tariffs)*” were adopted on 22 November 2001 to ensure introduction of the General System of Preferences. A new law “*On Customs Duty*” will be adopted by the end of 2002 to ensure compatibility of the content, structure and terminology to the EU relief system and will replace the law “*On Customs Duty (Tariffs)*”. The Government has adopted a range of Regulations implementing the Commission’s Regulation 2454/93.

Modernization of Latvian Customs is based on the SRS Customs Business Strategy for the years 2001 – 2005. The State Revenue Service has rationalised its structure by reducing the former 22 regional offices to 5. The Customs Officials Code of Ethics and Conduct was approved on 25 October 2001.

Elaboration of the Customs IT strategy is ongoing with a view to completion by the end of July 2002. In order to ensure compatibility of Customs IT systems with Community systems, the Phare 2002 project "Customs Business Strategy and Customs Data Systems" has been elaborated. Latvia has largely completed rollout of the ASYCUDA system.

Regarding the **external relations** the bilateral investment treaty (BIT) signed between Latvia and the United States, Latvia is currently analysing the treaty to identify possible inconsistencies with the *acquis*. Should such inconsistencies be identified, Latvia is ready to commence procedures to renegotiate the BIT provisions in order to harmonise the treaty with the *acquis*.

In the area of internal **financial control**, the draft law "*On Internal Audit*" has been elaborated and fine-tuned with a view to submitting it to the Government by July 2002. The law will set up the main principles for establishment, management and responsibilities of internal audit units in all state institutions.

In the field of external audit, the new law "*On State Audit Office*" was adopted on 9 May 2002. The new law provides that one of the tasks of the State Audit Office (SAO) is to control the income and expenditure of the state and local government budget and to carry out audits in compliance with the International Auditing Standard. Furthermore, the SAO will be entitled to audit every element of the chain down to the final beneficiaries of the EU funds. Regular training of the staff of the State Audit Office, in particular in co-operation with the Court of Auditors, continues.

Three reports on irregularities, as well as the required additional information, have been submitted to OLAF pursuant to financing memoranda. In addition, the database of violations and cases of fraud discovered in EC financed activities has been established. The procedure for gathering and monitoring information about the irregularities was approved on 8 April 2002. The SAPARD agency was accredited already in 2001. Annual audit plans are being prepared regarding ISPA funds.

In May 2002, a seminar was organized on the keystones of the EU Anti-fraud Office (OLAF) activities and cooperation with member states in order to ensure the protection of the financial interests of the European Community. The Ministry of Finance has undertaken to prepare proposals on the development of the main contact point for collaboration with the OLAF by 1 July 2002.