Latvia’s Contribution

to the Regular Report from the Commission
on Latvia’s Progress towards Accession

(National Progress Report)

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A. Introduction

1.1. Preface. The context of the Progress Report

Strategic planning and reform efforts of the Government are aimed at reaching readiness for membership of the EU by the end of 2002. Accession negotiations, the framework of the Europe Agreement and institutions established within it, together with the guidelines of the Accession Partnership and the Regular Report, serve as an effective means for Latvia to streamline our preparations for EU membership. The principal priorities of the Government – integration of society, public administration, economic and regional policy and the fight against corruption – are clearly reflected in budget planning and are directed towards implementation of EU principles.

The role of the Parliament (the Saeima) is crucial in the process of EU accession and raising public support for EU accession. All six parties elected to the Parliament in 1998 fully support Latvia’s integration into the European Union. In February the Parliament amended the law “On the Saeima Rules of Procedure”, thereby further strengthening its competencies in EU integration issues. The amendments to the Parliament’s Rules of Procedure foresee that at least twice a year the Government reports to the Parliament on Latvia’s integration towards EU. The second report on the national Strategy of the Republic of Latvia for integration into the EU, adopted in 2000, served as a basis for broad parliamentary debates on Latvia’s way to the EU, held on 17 May 2001. Latvia is the only candidate country to have approved such a strategy in the Parliament with the clear reporting mechanism to the general public. The EAC (Saeima, European Affairs Committee) considers the negotiation position papers prior to their submission to the European Commission. Latvia’s approach is already being used by the Parliaments of Ukraine and Georgia as a model in developing intergovernmental and parliamentary co-operation in EU matters, particularly in the approximation of legislation to EU standards.

Latvia has an advanced state of implementation of laws, what leads to two positive consequences: institution building was started well before the target membership date, thus allowing the general public and in particular the economic sector to adapt themselves to the new laws more gradually, thereby ensuring a more sustainable development in Latvia. Only 45 new laws and amendments to existing laws remain to be adopted before the accession, thus ensuring full compliance with the acquis. At present, effective enforcement of the adopted legislation is the main priority. The EAC works closely with the European Integration Bureau in monitoring of implementation of already existing legislation in order to ensure that the Community acquis is actually applied.

The revised National Programme for Integration into the European Union (NPAA) provides a single framework for planning, prioritising and monitoring the accession process. The NPAA ensures a link between the 2002 budget, medium-term budget planning and EU integration activities. To further ensure a strategic approach, Methodological Guidelines on the Medium Term budget planning were adopted.

Latvia continues to satisfy the political criteria for EU membership. In 2000 and 2001, state funding has been further increased to continue work in particular on Latvian language training, minority education, and public awareness. These measures directly contribute to a growing interest among non-citizens to apply for naturalization. To accelerate naturalisation, the naturalisation procedure was further simplified – the naturalisation fee was reduced, the number of categories for applicants eligible for reduction was enlarged, and language graduation exams of minority secondary schools are recognised for the purposes of naturalisation tests.

In order to strengthen administrative capacity, the Society Integration Department was established in the Ministry of Justice and setting up of the Social Integration Foundation is foreseen. The necessary financial means were allocated for this purpose.
The World Bank assessed the level of administrative corruption in Latvia as the second lowest among the countries surveyed. Transparency International acknowledged that corruption in Latvia is not out of proportion. Nevertheless, an effective fight against corruption remains among the priorities of the Government. The anti-corruption policy and institutional framework is in place. Work is continuing to increase public awareness. The new law “On Public Procurement” has been elaborated following recommendations made by the NGO Delna. Since January 2001, Delna observes the privatisation process of the Latvian Shipping Company.

New initiatives are being taken. The draft law ‘On Financing of Political Parties’ foresees direct state financing and establishing of a control mechanism over the financial activities of political parties. The new law ‘On Prevention of Conflict of Interests in Public Institutions’ has been drafted in order to improve control of public officials. In 2000, 4.8 % (instead of the obligatory 2%) of public officials’ declarations were reviewed in accordance with the “Corruption Prevention Law”.

Effectiveness in the fight against corruption is reflected by further FDI inflow, which increased by 22%. Latvia has a firm fourth place among the CEE countries in attracting FDI per capita. Investors’ confidence in Latvia is further promoted by a regular dialogue between the Government and the Foreign Investors’ Council, which is supplemented with the Action Plan.

Public administration reform is well under way. With adoption of the Framework Law for Public Administration, horizontal policy framework will be in place. A unified civil service (based on the Civil Service Law) has been introduced establishing the horizontal and vertical scope of the civil service based on public administration functions and defines main duties and responsibilities of the civil servants. The law applies to both the general and specialized civil service corps. A unified pay system reform was started with the adoption of The Concept on the remuneration system for civil servants and employees in January 2001 and is expected to be fully introduced within the next 4 years. Both implementation of the unified civil service and a unified pay system are reflected as priorities in the State budget for the year 2002. Functional reviews were carried out in ministries where administrative capacity needs to be strengthened. A well-established training system for civil servants is in place since 1993. During the year 2000, 7,472 public servants attended training courses. Strengthening of Phare programming capacity in the public administration is regarded as a priority.

Economic performance in 2000 has been very successful. Latvia is the most rapidly growing country in Central and Eastern Europe. GDP growth reached 6.6% in 2000 and 8.2% in the 1st quarter of 2001. Strict monetary policy ensures the stability of the currency and low inflation (2.6% in 2000); the budget deficit (2.8% of GDP in 2000, 4.2% in 1999) is being further diminished strengthening tax administration, optimising expenditure and improving financial control. The gradual fall in the current account deficit (6.8% of GDP in 2000, 9.6% in 1999) and rise of exports continued to improve Latvia’s external outlook.

The consequent structural reforms started in 1991 are resulting in the gradual diminishing of economic discrepancies between the regions. Positive developments have been observed in the reduction of the rate of job-seekers in the most part of the districts, growth of non-financial investments (substantial increase in the districts of Talsi, Aizkraukle and Krāslava, as well as city of Rezekne) and growth of the share of private sector in GDP (e.g., the districts of Ogre and Tukums, as well as cities of Daugavpils and Liepāja).

Unemployment fell to 7.9% in May 2001. The Government continued to address the issue of structural unemployment, which is linked to regional unemployment. The Regional Fund was established in 1998 to provide support for less-developed areas. As a result, a substantial number of working places were created. Furthermore, in 2000 41% of all registered unemployed persons were involved in active measures to promote employment (training, courses, and temporary public works). 66.3% of those who received special training have found employment. A positive trend in the decrease of long-term unemployment has been observed in 2000 – 39.6% of the long-term
unemployed and 35.2% of pre-retirement age unemployed persons were able to find a job. To address the issue of regional unemployment, the State Employment Service has developed 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. Targeted credit lines are available for business activities in the regions. Promotion of increased economic activity in Latgale and Zemgale region is covered by the framework of the PHARE 2000 economic and social cohesion component. With allocation of 5.2 million EUR under the 2000 State budget for the implementation of loan schemes for start-ups and SMEs through the Latvian Mortgage and Land Bank (LMLB), significant efforts have been made to facilitate access to finance by SMEs. Additional financial resources are attracted in co-operation with the German bank “Kreditanstalt für Wiederaufbau”.

Overall, active mass privatisation has been successfully completed in Latvia. Within nine years more than 97% of all state owned enterprises and companies have been privatised. The public service regulators are being strengthened and the sectors are being gradually liberalised. Almost half of foreign direct investment has been invested in Latvia as a result of privatisation and has lead to development of structurally strong enterprises. Responding to the outcome of the results of a referendum on the liberalisation of Latvenergo and in order to avoid creation of a private monopoly and a sharp increase in energy tariffs, the Government has decided to restructure Latvenergo prior to any change in its property status. There are only two large state owned public utilities remaining for privatisation – Latvian Shipping Company (Lasco) –, which operates world’s fifth largest tanker fleet – and Lattelekom.

With a view of future participation in EU structural policy, work has been continued to establish a clear legal and institutional framework. The draft “Law on Regional Development” has been elaborated, providing the legal basis and institutional framework for regional policy development and implementation. Programming capacities are strengthened through the further elaboration of the National Development Plan and programming of Phare investments in Economic and Social Cohesion. The decision has been taken to unify human and financial resources from institutions presently dealing with issues of regional policy with the final aim to establish a qualitatively new institution.

1.1. 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 fourth meeting of the Latvia – EU Association Council took place in Brussels on 27 February 2001. The fourth meeting of the Latvia – EU Association Committee took place in Riga on 13 June 2001.

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

Bilateral trade between Latvia and EU continued to expand. During 2000 exports to the EU accounted for 64.6% (62.5% in 1999) of total exports. Imports from the EU amounted to 52.5% (54.5% in 1999) of total imports. Compared to 1999, in 2000 Latvia’s exports to the EU increased by 15.9% and imports from the EU increased by 7.9%.
Trade with agricultural products.

The European Commission and the Ministry of Agriculture of the Republic of Latvia have agreed on further liberalisation of trade with agricultural products according to Article 20(4) of the Europe Agreement. Both parties have introduced autonomous, temporary legislative acts, which came into force on 1 July 2000. At present an Additional Protocol to the Europe Agreement on the new preferential agricultural trade regime between the Community and the Republic of Latvia is being elaborated.

The trade liberalisation negotiations on processed agricultural goods and on fish and fishery products have been concluded at a technical level.

PECA.

The negotiations to conclude the European Conformity Assessment Protocol (PECA) are well advanced. The Framework Agreement was initialled on 10 July 2000 and four sectoral annexes on electromagnetic compatibility, electrical safety, construction products and toys were initialled on 5 April 2001.

Negotiations on sectoral annexes for good manufacturing practice for medical products are in the final stage. Sectoral annexes for machinery, personal protective equipment, lifts, simple pressure vessels, pressure equipment and protective systems intended for use in potentially explosive atmospheres (ATEX) are in the process of negotiations and will be completed shortly.

Negotiations

Following the Helsinki European Council decisions of December 1999, official accession negotiations with Latvia started on 15 February 2000. By the end of June 2001, 29 chapters were opened in negotiations. Negotiations were provisionally closed in 16 chapters: Free movement of goods, Free movement of Persons, Freedom to provide services, Free movement of capital, Company Law, Economic and Monetary Union, Statistics, Social policy and employment, Industrial policy, Small and Medium Enterprises, Science and research, Education and training, Culture and audio-visual policy, Consumers and health protection, External relations and Common Foreign and Security Policy.

1.2. Community aid

PHARE

In 2000-2001 PHARE remains the main instrument providing financial assistance to the implementation of Latvia’s pre-accession strategy. Implementation of the PHARE 98 programme will be finished by autumn 2001 as the disbursement period expires. The contracting period for PHARE 99 expires in July and December 2001, which means that considerable efforts are being made in order to commit the amounts allocated in the Financing memoranda. The PHARE 2000 programme implementation started recently after the signing of the Financing memorandum in December 2000. As for PHARE 2001, the last revised project fiches were sent to the European Commission in mid-April (revised PHARE Economic and Social Cohesion projects were sent in May 2001). The submitted projects cover the areas of social integration, tax and customs administration, agriculture, prevention and combating of organised crime, asylum and migration system management, maritime safety, strengthening bi-partite social dialogue, development of civil society, development of Customs and Sanitary order Inspection infrastructure in seaports and on railroad, as well as investments in economic and social cohesion.

Programming capacities have been strengthened through the strategic leadership of working group composed by Ministry of Finance, Secretariat of Minister for Special Assignment on Co-operation with International Financial Agencies, Ministry of Foreign Affairs, European Integration Bureau in
preparation of PHARE 2001. More attention is paid to the identification of priorities and definition of measures to be implemented under priorities. Evaluation of the project proposals submitted from line ministries has improved. The approach of strategic identification of programme priorities will be followed also during PHARE 2002 preparation.

The First Joint Monitoring Committee (JMC) meeting took place in December 2000. The meeting was organised on the basis of the Monitoring Reports prepared for Sectoral Monitoring Sub-Committees, which took place in September 2000. For the first time the Monitoring reports have been prepared by the Latvian administration.

PHARE CBC serves as an instrument preparing the country for work with the Community initiative Interreg after accession. Since September 2000 Latvia has chaired the development of the Joint Programming Document for the PHARE CBC Baltic Sea Region Programme 2001-2006. The Joint Programming Document has been approved by the 11 countries involved in the Region’s cooperation and is submitted to the European Commission for adoption.

**ISPA**

The Memorandum of understanding on the implementation of ISPA was signed between the European Commission and Latvia in December 2000. The memorandum enables Latvia to enter into agreements and launch the implementation of investment and technical assistance projects, with the co-financing of ISPA, in the environment and transport sectors. The European Commission has so far approved three environment and four transport infrastructure projects to which nearly € 81 million have been extended from the ISPA fund, while Latvia’s co-financing for the projects will be € 40 million. In order to implement the projects, a financial memorandum has been agreed for each project. The projects have to be pre-financed by Latvian authorities or companies and will be repaid from 47 to 75 per cent by ISPA. The implementation of the first project in Latvia, which involves the improvement of the Via Baltica highway between the thirteenth and twenty-first kilometres, got under way in April 2001, and is expected to be completed in November, being the first accomplished ISPA project in the EU candidate countries.

**A number of projects in the transport and environmental sectors are under preparation for the year 2001.**

On 8 May 2001 the first ISPA Monitoring Committee was organised with the aim to commence the process of monitoring ISPA financed projects and reviewing the progress made so far in the implementation.

The Commission has launched the introduction of EDIS (Preparing for Extended Decentralisation). The EDIS is to be implemented during 2002 and should be operational by 2003.

**SAPARD**

Latvian Rural Development Plan got a favourable opinion in the STAR Committee (EC Management Committee on agricultural structures and rural development) in September 2000. The Commission approved the plan in October 2000.

The plan is based on three priorities, namely the development of sustainable agriculture (54% of EC funds), integrated rural development (36% of EC funds), and improvement of the environment (4% of EC funds). The average annual expenditure will amount to € 54.8 million during the period 2000-2006, of which € 22.2 million (at 2000 prices) represent the Community contribution.

The Rural Support Service (the necessary administrative structure) is in place to administrate SAPARD financial aid. Arthur Anderson has carried out the pre-accreditation audit of the Rural Support Service for the official recognition of the RSS as a paying agency for EU structural aid purposes. In May 2001 representatives from Arthur Anderson, the Ministry of Agriculture, Ministry of Finance and State Treasury met EU auditors in Brussels to discuss the last audit report.

The EU auditors accepted the audit report and an official presentation of RSS and the State Treasury will take place in Brussels at the end of June. The EU auditors will visit Latvia in July for the inspection of the RSS and ST. The accreditation of the Rural Support Service as a SAPARD agency is envisaged to be completed in September 2001.

It is envisaged that the SAPARD programme will be launched and the first project submitted in October 2001.

*Twinning*

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 4 out of 17 Twinning projects approved by the European Commission. The projects cover almost all the sectors of 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 10 845 843 EUR.

Latvia highly appreciates the EC decision to introduce the twinning “light” instrument in order to address Accession partnership priorities through provision of medium term secondments.
B. Criteria for Membership

1. Political criteria

1.1. Democracy and Rule of the Law

The Parliament

All six parties elected to Parliament in 1998 fully support Latvia’s integration into the European Union. The Parliament’s (the Saeima) role in the integration process of Latvia into the EU has been further strengthened. In February the Saeima amended the law “On the Saeima Rules of Procedure” that specifies its competencies in the EU accession negotiations, foreseeing that the Saeima exercises its involvement in EU matters through its European Affairs Committee (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’s 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 for the negotiation process.

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.

Substantial progress is being made in adoption of laws transposing the acquis. Approximation of legislation adopting the most important framework laws in the Parliament is nearly completed – approximately 45 laws and amendments to the existing laws remain to be adopted in the Saeima before accession. The Saeima is committed to the monitoring of implementation of already existing legislation in order to ensure that the Community acquis is actually applied.

With assistance of the EU Phare project further steps will be taken to strengthen the Saeima’s capacities for dealing with the adoption of the acquis, particularly training programmes for Members of Parliament and Parliament staff.

The role of the Parliament in EU processes was further strengthened with amendments to the Saeima Rules of Procedure, foreseeing at least twice yearly Government reports to the Saeima on the Government’s achievements and future actions in EU matters. The Strategy of the Republic of Latvia for Integration into the EU, adopted in the year 2000, served as a basis for parliamentary debates on the implementation of the Strategy, held on 17 May 2001.

The Government has already submitted two Reports on implementation of the Strategy to the Parliament.

The Saeima EU Information Centre has expanded its activities on information provided to the general public. In February 2001 new public information project was started on Latvia’s Radio 2, where EU related news are broadcast every working day. In July 2000 a new project was started to inform society in the regions on Latvia’s integration into the EU. Each week various publications prepared by the EUIC are published in regional newspapers.
The Parliaments of Ukraine and Georgia are studying the working methods of the Latvian Government and Parliament with the aim of developing parliamentary co-operation in matters of European integration, in particular in the approximation of legislation to EU standards.

The Executive

The Government has been committed to the task of public administration reform. Framework legislation, including the “Civil Service Law” and the “The Public Agencies Law”, has been adopted. With approval of the “Framework Law for Public Administration” pending in the Parliament, the horizontal policy framework will be completed. Implementation of the “Civil Service Law” is ongoing in order to provide for a unified and professional civil service. Reform of the remuneration system is ongoing. Co-ordination capacities of public administration are good and were further improved though the strengthened role of the State Chancellery in policy making. Latvia has a well-established training system for civil servants.

The unified civil service is in place. The new “Civil Service Law” came into force in January 2001. It establishes the horizontal and vertical scope of the civil service based on public administration functions, and defines the main duties and responsibilities of civil servants, applicable both to general and specialized civil service corps. Certain secondary legislation has been adopted to provide for implementation of the Law. New procedures for nomination and selection of civil servants have been implemented providing for increased responsibility of managers in selection of civil servants. The special order is defined for appointment of senior civil servants. The Personnel Management System is implemented through determining ranks of civil service positions, regular evaluation of performance, and career development. The Unified Register System, ensuring the basis for monitoring and analysis of civil service, is in place. The Civil Service Code of Ethics, defining principles of conduct of civil servants, is in force from January 2001. The procedures for disciplinary surveillance are in place.

The process of awarding civil service status is ongoing under the “Civil Service Law” and is expected to be completed within three months. The number of public institutions operating under the Civil Service Law has increased from 87 (in 2000) up to 120 (in 2001). From December 2000, the number of civil servants has increased from 6000 to 26 781, including 21 281 civil servants of special corps and 5500 civil servants in core public administration. The estimated number of civil service posts in public administration is 32 000.

The determination of civil service position qualification categories is the next most important step in the road towards implementation of the “Civil Service Law”. The Regulations providing the order of determination of position qualification categories were submitted to the Cabinet in the beginning of June 2001.

Latvia has a well-established training system for civil servants, which is operational since 1993. During the year 2000, 7 472 public servants attended training courses at the Latvian School of Public Administration. Planning of the training courses is based on real demand. Priorities are EU policies, administrative procedures, prevention of corruption, strategic planning and personnel management.

The reform of the remuneration system is being implemented since 1999. The Ministry of Finance has carried out the complex review of salaries in public institutions in 1999, which serves as one of the basic documents in the development of a reliable remuneration system. The “Civil Service Law” provides the legal basis for a unified remuneration system in the civil service. According to the “Conceptual paper on the remuneration system for civil servants and employees” (January 2001) the pay reform will be completed in next three years. The elaboration of respective Regulation will be completed by September 2001. Phasing-in will be used in implementation of the new system, taking into account the impact on the state budget. To ensure that the new remuneration system is backed by budgetary allocations, the Government will approve the calculation scheme of the necessary financial
resources simultaneously with the approval of the Regulations on remuneration system for civil servants and employees.

The new pay system will be based on the monthly wage scale, as well as bonuses and extra remuneration. The monthly wage scale will be determined according to the category of the position classifications and qualification level of civil servants and public employees. The categories of position classifications will be determined according to the civil servants (public employees) job evaluation methodology and years of service in public administration. The individual management contracts will cease to exist as the basis for extra payment in addition to an inadequate basic salary.

The draft of “The Framework Law on Public Administration” is being prepared by the Saeima Standing Committee on Public Administration and Local Government for the second reading. The final adoption of the Law is expected by the end of the year. The Draft Law defines the role and relations between public administration units, and provides a clear framework for rationalisation of public administration structures and policy process.

“The Public Agencies Law” entered into force on 25 April 2001. The law provides for transformation of existing state and local government enterprises and non-profit organisations into public agencies, hence ensuring public service delivery with a degree of managerial authority, adequate transparency and strengthened control of public expenditure. The new agencies will be established in the course of 2002 according to the timetable to be approved by the Government. Implementing regulations will be prepared by the end of the year to establish the criteria for setting up public agencies, define the order for transformation of state enterprises under the new legal framework, implementation of internal audit in public agencies, financial management and accountability arrangements. The salary of agency heads will be included in the uniform salary pay system for heads of public bodies.

“The Law on Administrative Procedure” has been prepared for the third reading in Saeima and is expected to be adopted in September 2001. The Law will govern administrative procedure and provide basis for appeal of decisions taken by public institutions in the court.

To improve policy co-ordination in line with the recommendations of Sir Robin Mountfield, the Strategic Planning and Policy Coordination Department in the State Chancellery has been established. It assists Government in strengthening capacity for developing and coordinating crosscutting policy and coordinating the preparation of corporate plans for each ministry. The low personnel turnover at the senior civil service level provides for stability and enhances strategic planning capacities.

In striving for enhanced policy making, the main emphasis is put on developing medium term budget planning. “The Methodology Guidelines for the Medium Term Budget Planning” were adopted in the Government in April 2001 in order to provide for integration of medium term policy priorities in the budget planning process. The medium term budget planning aims at strategic planning increased prioritisation of sectoral needs, and continuity of government policy. Targeted programme reviews will help government to control efficiency and effectiveness of public administration. Medium term policy priorities will be integrated in the budget planning, starting with the budget year 2003. Impact assessment capacities have been further strengthened through the advanced procedure for drafting laws. According to the elaborated procedure, draft laws and legal acts should be accompanied by an annotation, which provides for assessment of legal, financial, economic and social impact.

“The Public Administration Reform (Modernization) Strategy (2001- 2006)” has been submitted for decision to the Government. The strategy defines medium term objectives of the public administration reform, which are aimed at increased accountability, efficiency, and impartiality of public administration. The Programme of the Strategy defines the action to be undertaken to meet the
defined objectives and timetable for implementation. A central coordinating council, involving representatives of all the Ministries, will be set up to secure implementation of the Strategy.

Functional reviews have been completed in 5 ministries out of 12 since 1999 to reduce inefficiencies of public administration resulting from unclear and overlapping responsibilities. During the course of 2000, two functional reviews of the Ministry of Economy and Ministry of Justice were completed. The review of financial management systems in the Ministry of Agriculture and Ministry of Justice were performed by a team of international consultants with the support of the World Bank.

“The methodology for horizontal functional reviews” was adopted in November 2000. Work is continuing to design a methodology for fundamental public administration reviews, which can render the instrument for the government to perform expenditure programme reviews linked to the preparation of the medium term or annual budget.

The Inspectorate Reform Programme is continuing with the aim to reduce administrative barriers to entrepreneurship. 15 inspectorates out of 21 have prepared a Client information strategy to improve the everyday work process and ensure transparency of inspection procedures. A horizontal co-ordination council for inspections steers implementation of inspections reform. A training programme for inspections has been commenced, with the focus on application of improved procedures, effective treatment of clients, performance management and strategic planning.

“The Concept on Territorial System of Public Institutions” has been developed with the aim of organising the territorial system of public administration into five administrative regions. Implementation of this concept will enable Latvian administration to improve efficiency and reduce administrative costs, and to ensure better co-ordination between territorial units of public administration. It is aimed at creating the basis for establishment of “one stop-agencies”.

Anti-corruption

Transparency International has acknowledged that corruption in Latvia is not out of proportion. The World Bank in its recent report on corruption in transition countries assessed the level of administrative corruption in Latvia as the second lowest among the countries surveyed. The USA Helsinki Commission recognises that Latvia openly discusses the corruption issue and actively involves international organizations and NGO’s in corruption prevention and promotion of transparency.

An effective fight against corruption remains among the priorities of the Government. The system for preventing and fighting corruption has been significantly improved: the anti-corruption policy framework is in place, institutions are established and further strengthened, improvement of legislation is continuing and involvement of society in prevention is being ensured.

On 15 May 2001 the Government adopted the renewed Corruption Prevention Program (CPP). With a view to streamlining the anti-corruption policy, it provides for the implementation of measures such as protection of whistleblowers, improvement of criminal procedure in conformity with anti-corruption requirements, improvement of internal audit and improvement of the system of financing of political parties. The institutional set-up for the fight against corruption is in place since 1997. The law “On Corruption Prevention” regulates corruption prevention in the public sector since 1995. To complete the overall legal and institutional framework, the implementation of new initiatives is being enforced.

Latvia has started the implementation of new initiatives in the areas of party financing, the institutional set-up for the fight against corruption, and drafting amendments to the “Anti-Corruption Law” according to the Concept Paper for Corruption Prevention (adopted on 8 August 2000 and supplementing the CPP). The Government is committed to further improving the legal framework and its implementation. At present, the draft law “On Financing of Political Parties” has been
submitted to the Government. It provides direct state financing and establishing of a control mechanism over the financial activities of political parties. The draft law “On Anti-Corruption Bureau” is prepared for submission to the Government. It foresees the establishing of a central institution responsible for fighting corruption in the country. The new law “On Prevention of Conflict of Interests in Public Institutions” has been drafted in order to improve control of public officials. It will replace the existing law “On Corruption Prevention”. Furthermore, the principles of initial fixation of property and legal presumption have been elaborated.

Latvia is committed to continuing alignment with international anti-corruption instruments. The Council of Europe Criminal Law Convention was ratified on 7 December 2000. The amendments to the “Criminal Law” necessary for the implementation of the Convention have been adopted by the Parliament at the second reading. The amendments are also in conformity with the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and other international instruments. The OECD Convention can be signed as soon as the OECD Working group on bribery finishes examination of the Latvian anti-corruption legislation.

Concrete results have been achieved in the implementation of anti-corruption policy. Amendments to the law “On Public Procurement” provide for the publication of public procurement offers on the Internet. Amendments to the law “On Managing of the State Shares in Enterprises” provide that state proxies must be nominated in an open competition. The Strategy for fighting corruption among public officials has been elaborated by the State Police to raise efficiency of combating measures. Proper and efficient functioning of public administration and prevention of corruption is promoted by ensuring internal audit within the ministries.

The non-governmental organization Delna, the Latvian affiliate of Transparency International, has acknowledged that corruption in Latvia is not out of proportion. It has concluded that public concern about corruption is more serious than its actual spread – more than 85% of people have never come into direct contact with corruption. Nevertheless, public perception indicates that the most corruption-prone sectors are the Customs and the Road Police.

In reaction to public opinion, special anti-corruption action plans are being implemented within the State Revenue Service (SRS) and the State Police. Since October 2000, the State Police registers all violations in a joint database, while fines for traffic violations are payable by money transfer. The rotation principle among customs officials has been enforced. Unified technological schemes have been developed for all customs points providing clear division of competencies between the involved institutions. Video-monitoring systems are in place at the airport and in major customs points. During the year 2000, 16 internal audits were carried out in different regional units of the SRS. Special expert in corruption prevention matters in SRS will be appointed till the end of 2001. The Institute of Foreign Affairs of Latvia in its recent report recognises that corruption in the court system is insignificant.

Over the last year, 5 persons were sentenced for passive bribery, 6 for active bribery and 13 for abuse of official status. In 2000, 4.8 % (instead of obligatory 2%) of public official’s declarations were reviewed in accordance with the “Corruption Prevention Law”, resulting in administrative liability for 287 public officials.

The Security Police, a special squad dealing with corruption in law enforcement institutions that was established in April 2000, initiated 9 criminal cases during the year 2000 and 3 cases this year.

The non-governmental organization Delna takes an active role in promoting transparency in public bodies. Since January 2001, Delna observes the privatisation process of the Latvian Shipping Company. The new law “On Procurement for Government and Municipal Needs” has been elaborated following the Delna’s recommendations.

The Government pursues an active seminar policy in co-operation with international donors to raise public awareness and involvement in corruption prevention. In the framework of the PHARE project
The Programme for Anti-Corruption Legislation, Education and Information, the educational project Together against Corruption has been launched in schools across Latvia. A number of seminars concerning the investigation of corruption cases have been held for judges, prosecutors, policemen and representatives of mass media.

In 2000, FDI inflow further increased by 22%. Latvia is becoming one of the leaders among the Central Eastern European countries in terms of attraction of FDI per capita. Investors’ confidence in Latvia is further promoted by a regular dialogue on anti-corruption measures between the Government and the Foreign Investors’ Council, which represents the business community.

Judicial system

The complex (comprehensive) approach to strengthening the independence and effectiveness of the court system is based on a survey of court system development, which was prepared by the Ministry of Justice at the end of 2000. The most important elements of reform are (1) execution of court judgements, (2) speeding up of court proceedings, (3) modernization of courts and (4) training of judges. Judicial reform was set as a priority in the 2002 state budget.

The reform of court bailiffs has continued. With adoption of the draft laws “On Sworn Court Bailiffs” and “Criminal Procedure” the legal framework will be completed. The Parliament considered the law “On Sworn Court Bailiffs” in 1st reading on 21 June 2001. The law defines the scope of professional and corporate activities of court bailiffs as representatives of a free legal profession and provides for effective procedure of enforcement of court judgements. Under the Phare project “Reform of the Court System”, training of employees of the Department of Court Bailiffs in the Ministry of Justice is taking place.

The Government is working in two main directions to shorten the duration of court proceedings: the elaboration of a new “Criminal Procedure Law” and upgrading of court infrastructure (refurbishment of new premises for the Riga Regional Court). The drafting of the new law will be finished by October 2001, including legal provisions for reform of the institution of lay judges. To speed up court proceedings, the number of judges in the Riga Regional Court was increased by 3 the 2001.

To shorten the pre-trial detention period and speed up the trial of cases against juvenile offenders, the new Criminal Procedure Law includes provisions for giving such cases priority and setting time limits for their trial. Conceptual suggestions on an alternative penal system in the “Criminal Law” will be elaborated by 1 September 2001, in order to improve court proceedings regarding minors. Alternative penalties are aimed at extending applying penalties without imprisonment. The situation concerning minors improved during the year 2000, when the total number of sentenced minors was 1 785, a conditional penalty was applied to 1 231 persons, 32 had to pay a fine, 39 were sentenced to public works and 86 minors were released from the penalty.

Modernization of courts continues with upgrading of the infrastructure of court buildings and setting-up of a unified information network. The refurbishment of new premises for the Riga Regional Court has been commenced to reduce the overall workload in courts and to observe security requirements. Reconstruction of the new Court building is scheduled to be finished by the end of 2002. Two court buildings are being refurbished in Riga and Daugavpils. The construction of new court premises for Jurmala Court is being planned. Amendments to the law “On Judicial Power” have been prepared in order to introduce numerous measures for improving the efficiency of the court system.

Computerisation of the court system continues within the State Investment Project “The Unified Court Information System” in order to speed up court proceedings and to ensure effective access to information. At present, all regional and 22 local courts are fully equipped with computers. The software system is tailored for all three instances of court proceedings. More than 600 users have
been trained in computer courses. The budget funding for the project has been increased from the amount of 300 000 LVL in the year 2000 to 500 000 LVL in the year 2001.

The training of judges has been significantly extended following the opening of a new Judicial Training Centre (JTC) at the Riga Graduate School of Law in March 2001. A modern infrastructure with up-to-date classrooms, high-tech equipped law library, full access to computers and legal databases is provided. The new Centre proceeds according to the Special Training Programme for 2000-2002. Reflecting present trends in organized crime, 60 judges were trained in drug-related crime and 80 in finance-related crime during the past 6 months. Good results can be reported in the training of judges in European Law. Training activities were provided by the Phare Twinning project “The Court System Reform”, the Phare project “Developing Judicial Cooperation in Estonia, Latvia and Lithuania” and the TAIEX office. One judge from each local and regional court has attended more than 9 seminars in EU law since July 2000. The training of judges in EC Law is planned to continue within the Phare project “Training of Judges in Community Law”.

Reconstruction of the prison system continues within the State Investment Programme. During the year 2000, 1478 000 Ls were allocated for reconstruction of Central Prison, Matisa and Jelgavas prisons. For instance, one of the buildings of Central Prison has been fully renewed and became operational in April 2001.

See also chapter 24. Co-operation in the field of justice and home affairs on judicial co-operation in criminal and civil matters.

1.2. Human rights and protection of minorities.

Latvia satisfies the political criteria for EU membership and has acceded to most of the major international human rights instruments. The Government is implementing the short and medium term Accession Partnership priorities successfully. In 2000 and 2001, the state has significantly increased funding for integration projects and has continued working in key areas such as Latvian language training, minority education, naturalisation, social and regional integration.

The Government of Latvia will continue to promote integration of society by expanding the Latvian language training programmes for non-Latvian speakers, by implementing the National Programme “Integration of Society of Latvia” and by sustaining the naturalization process and the capacity of the Naturalization Board.

Civil and political rights

On 30 November 2000, the Saeima amended the law “On Constitutional Court”. As of 1 July 2001, individuals will have the opportunity to turn to the Constitutional Court regarding violations of their rights; until now only state bodies and officials could turn to the Constitutional Court.

The new Judicial Training Centre (JTC) at the Riga Graduate School of Law was opened in March 2001 to strengthen judicial training. Within the Special Training Programme JTC provides the training of judges and other representatives of legal professions for the years 2000–2002. Within the Latvian-German Phare Twinning project “The Court System Reform”, 9 seminars on European Law have been organised for 39 judges since July 2000. Thus one judge from each local and regional court is specialising in European Law.

In order to improve living conditions for **illegal immigrants**, one of the centres for illegal immigrants (in Riga) was closed down in mid-2000, and improved living conditions in the remaining centre for illegal immigrants in Olaine are envisaged.

Amendments to the **“Criminal Law”** (submitted to the Government on June 15) introduce criminal liability for **trafficking in human beings** in compliance with the **acquis**.

To shorten the duration of court proceedings, the elaboration of a new and modern **“Criminal Procedure Law”** has begun. The drafting of the Law will be completed by 1 October 2001. In order to speed up the review of cases against **juvenile** offenders, the new draft Law on Criminal Procedure includes provisions for giving such cases priority and setting time-frames for their review. Furthermore, conceptual suggestions on alternative penalties in the Criminal Law will be elaborated by September 2001 to improve the court proceedings regarding minors. The alternative penalties are aimed at extending applying penalties without imprisonment.

Reconstruction of the **prison system** continues within the state investment programme. During the year 2000, 1.478 000 LVL were allocated for reconstruction of Central Prison, Matīsa and Jelgavas prisons. For instance, one of the buildings of Central Prison has been fully renewed and become operational in April 2001.

**Economic, Social and Cultural Rights**

To ensure compliance with principles of equal treatment, the **Concept Paper on Gender Equality** has been submitted to the Government in May 2001. The main goal of the concept is to stimulate efficient, integrated and coordinated resolution of gender equality issues. To raise public awareness of the issue, the NGO Coalition for Gender Equality has been established. The first court case concerning equal pay went to the cassation where the decision was reinstated that employer had treated a female employee unequally (see also chapter **13. Social Policy and Employment**).

The draft **“Law on Psychiatric Assistance”** is under consideration in the Government. The aim of the law is to guarantee the rights of mentally handicapped patients, to determine the procedure of provision of psychiatric assistance excluding any discrimination, and to ensure reintegration into society of the mentally handicapped.

To guarantee **social insurance benefits** for employees in cases when employers avoid paying social insurance contributions, amendments to the law **“On State Social Insurance”** providing that an individual is entitled to a social insurance benefit even if the employer has failed to pay the required contributions for him were adopted by Parliament on 20 June 2001.

Following the comments received from the experts of Secretariat of European Social Charter of Council of Europe on the Zero Report on the compliance of the Latvian legislation with the European Social Charter, the inter-institutional work group was established, who examined in detail the possibilities to accede to provisions of Charter. As a result, draft law **“On ratification of the European Social Charter”** was elaborated. The draft law was submitted to the Government on 26 April 2001.

**Minority rights and the protection of minorities**

**Minority education**

Latvia continues to provide minority education for Russian, Estonian, Lithuanian, Polish, Jewish, Roma, Ukrainian and Belarussian minorities. Minority education is bilingual; part of the subjects is taught in the minority language, another part in Latvian and other subjects are taught using two languages. In 2000, the State provided 10 000 LVL for further education of minority teachers,
75 000 LVL for purchasing teaching materials in Latvian for minority schools, and 600 000 LVL for salary support for minority schoolteachers of Latvian and bilingual teachers. The salary support for minority school teachers of Latvian and bilingual teachers has been increased in 2001, with 718 000 LVL allocated for this purpose. There is organised in-service training for teachers of bilingual education in Latvia.

The naturalisation procedure

Of Latvia’s total population of about 2.36 million, around 1.78 million (75.4 %) are citizens.

By the end of May 2001, more than 45 000 naturalisation applications have been received, and more than 44 000 persons have been granted Latvian citizenship since the beginning of the naturalisation process in 1995. The effectiveness of the naturalisation process is confirmed by the continuously high pass rates of naturalisation tests – around 95% of the applicants pass them in the first attempt. 14 900 persons naturalised in 2000, which is the highest number since the beginning of the naturalisation process in 1995. 3 656 persons acquired the citizenship of Latvia through naturalisation in the first four months of 2001.

The latest poll “Towards Civic Society 2000” published in April 2001 shows that the main motivation for non-citizen to naturalise was the feeling that they belong to Latvia. Most of them found that the naturalisation tests were easier than they had expected. 82% said that the main difference between citizen and non-citizen is that citizens have the right to participate in elections. The poll dispels the stereotype that naturalised citizens vote only for left-wing parties. In the local elections in March 2001, naturalised citizens’ votes went to all significant political parties.

On 5 June 2001, the Latvian Government took further steps to accelerate naturalisation. The Government amended the regulation “On the State Duty for the Review of a Naturalisation Application”. The standard naturalisation fee was reduced by a third to 20 LVL. The number of categories of applicants eligible for a 50% reduction was enlarged to include university students and all groups of disabled persons. Low-income applicants will either be exempted from paying the duty or will pay a reduced duty of 3 LVL, depending on their level of income. Already prior to the amendments, old-age pensioners, most categories of disabled persons, high-school students, orphans and several other categories of naturalisation applicants paid a reduced duty or were exempted from it.

On 5 June 2001, the Government amended the regulation on the naturalisation tests. In accordance with the amendments, the graduates of minority secondary schools who have passed the centralised Latvian language graduation exam will be considered as having passed the examination of language proficiency required for naturalisation. Consequently, they will not have to take the naturalisation language test, which is compulsory for all other applicants.

The Naturalisation Board actively works to provide the population of Latvia with information on the issues of citizenship, naturalisation and integration of society, and to promote understanding of these issues. Applicants for Latvian citizenship are provided with information on the requirements for the acquisition of Latvian citizenship and the necessary teaching and methodological materials to prepare for the tests prescribed by the law “On Citizenship”. The Internet homepage of the Naturalisation Board provides further information on the provisions as to the acquisition of the citizenship of Latvia and the relevant legal acts.

In 2001, the Naturalisation Board started to implement an extensive programme to inform the inhabitants of Latvia about the issues of citizenship. The Naturalisation Board has introduced a new form of work in the field of providing with information by organisation of Information Days, during which everybody can obtain information about the work of the Naturalisation Board and try out the naturalisation tests free of charge; information days are organised regularly both at the central office of the Naturalisation Board and in the regions. The libraries of the Information Centre of the
Naturalisation Board (in Riga, Daugavpils and Liepāja) increased their stock. The EU Phare project LE9803.02/001 “The Integration of Society through Information and Education” is currently being implemented. Several informative materials (bulletins, booklets and video materials on the issues of the citizenship) have been published within the framework of this project. The annual pupils’ competition “On the Way to a Civil Society” was organised in co-operation with the Information and Documentation Centre of the Council of Europe within the framework of this project.

In 2001, government funding for the Naturalisation Board was increased by additional funding for the salaries of 8 employees, and state investments for the implementation of the project “Automated System for Maintenance of the Naturalisation Process” were provided.

In order to address the lack of Latvian language proficiency among non-citizens living in the large cities, the Naturalisation Board, the UNDP and the OSCE Mission to Latvia have developed a project “Implementation of the Fast Track Latvian Language Training Programme for Facilitation of the Naturalisation Process in Latvia”. 2,000 applicants for the citizenship of Latvia will have the opportunity to master the Latvian language in intensive courses within the framework of this project. 830 applicants for the citizenship of Latvia mastered the Latvian language within the framework of a similar project in 2000. 94% of them passed the examination of the Latvian language proficiency and became citizens of Latvia.


Integration of society

On 6 February 2001, the Government adopted the expanded version of the National Programme “Integration of the Society of Latvia”. The Programme consists of five chapters, covering the participation of civil society in the process of integration of minorities, the role of NGOs, as well as issues of repatriation, migration and co-operation with the Latvians living abroad. The programme also covers the social and regional, as well as the educational, cultural and language aspects of integration. The Government has allocated more than 11,000,000 LVL for integration related projects in the State budget for 2001.

The law “On the Society Integration Foundation” will be adopted in 2001. The Government has earmarked 200,000 LVL for the functioning of the Society Integration Foundation in the State budget for this year. The law has been adopted in the first reading. The second reading will take place on 21 June, and the third, final reading is planned in summer. From early autumn 2001 the newly established foundation will start to contribute to the implementation of the National Programme for Integration of Society through organising competitions, examination and financing of the submitted projects.

The Society Integration Department established in the Ministry of Justice in November 2000 will co-ordinate the implementation of the Programme. In November 2000, the Minister of Justice created an advisory council on social integration issues, which meets to discuss the topical issues of integration. Pending approval of the Phare 2001 project, 2,000,000 EUR will be invested in the development of the Society Integration Foundation over the following two years.

At present, Phare 2000 and Phare 2001 projects for integration of society are in different stages of preparation. Besides the language-training component, which is a part of both projects, these projects are aimed at:

- Development of a mechanism for implementation of the National Programme for Integration of society, with particular attention to long-term sustainability, efficiency and international credibility of the Integration Foundation on the basis of a sound national fiscal and legal environment.
Enforcement of pilot projects in order to demonstrate the capacity of the Integration Foundation and to support the implementation of the National programme for integration of society.

Parallel to work on the Phare project, the institutional capacity of the Ministry of Justice Social Integration department is being strengthened through a 2-year co-operation project with UNDP. This project commenced in May 2001.

Local governments actively participate in the society integration processes. As of 1 January 2001, there were Integration Councils or Working Groups in 16 districts of Latvia. For instance, there is Consultative Council of Non-citizens in the city of Ventspils, whose members actively participate in the work of the City Council. The district of Alūksne also works at the development of its local society integration programme. Daugavpils City Council and Rezekne City Council have established their own Integration Commissions. The issues of integration of society are included in the development plans for the district of Liepāja and the region of Zemgale. The Aizkraukle Social Integration Council registered as a non-governmental organisation in late October 2000 and works primarily with youth integration projects.

In November 2000, the Government adopted amendments to the implementation regulations of the “State Language Law” concerning language requirements for the performance of professional duties in the private sphere. A short list of professions (mainly medical) where legitimate public interests are concerned was adopted taking into account OSCE suggestions. The implementation of the State Language Law has been smooth and no problems have been encountered so far.

Latvian language training

In January 2001, the Ministry of Education and Science took over the co-ordination of the National Programme for Latvian Language Training (NPLLT) from the UNDP. From 1997 to December 2000, 42,630 persons had participated in the courses organised by the Programme. The NPLLT has been offering an ever-increasing number of Latvian language teaching courses for adults and teachers of the Latvian language course subjects. In total, 2,649 courses have taken place from 1997 to Spring 2001. Out of the total number, 658 courses took place in 2000, and 316 courses in the first half of 2001.

The NPLLT trained methodology experts who, in turn, trained other LSL teachers and minority school subject teachers; developed teaching materials for schools and adult learners; organised numerous seminars on the policy and methodology of language acquisition; developed distance learning materials (TV film, radio programs, Internet tools); and promoted a dialogue on language policy and language training issues.

The main objective of the next two years of the implementation of the NPLLT is to ensure continuous teacher training, development and accessibility of teaching materials, provision of Latvian language training and promotion of community level integration activities.

The planned total budget of NPLLT for the year 2001 reaches 2,400,000 EUR, of which 710,000 EUR have been allotted from the State budget. This is the first year when the NPLLT receives direct State budget funding. The budget of 2001 also includes additional support to Latvian language teaching, namely, means for further education of minority teachers, purchasing teaching materials in Latvian for minority schools, and salary support for minority school teachers of Latvian and bilingual teachers.

On 23 January 2001, the Government amended the implementation regulations of the State Language Law, which allow the use of the results of the centralised Latvian language exams at minority schools for job applications.
2. Economic Criteria

2.1. Introduction

The economic performance of Latvia in 2000 has been very successful with growth remaining high through the year, rising investments and falling unemployment. Strict monetary policy ensures the stability of the currency and low inflation; the budget deficit is being further diminished, tax administration is being strengthened, expenditure is being optimised and financial control is being improved. The business environment is being constantly improved; final steps have been taken to complete privatisation of large state owned enterprises. The gradual fall in the current account deficit and rise of exports improve Latvia’s external outlook.

Latvia has made continuous and steady progress in its programme of economic reforms and in the creation of a functioning 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 the legal environment for enterprises has been simplified. The structure of the Latvian economy has been progressively evolving towards the structure in the most developed economies. The year 2000 considerably enhanced the competitiveness of the Latvian economy. Sustainable progress in implementation of the market reform agenda will enable Latvia to cope with competitive pressures and market forces within the Union upon accession.

2.2. Macroeconomic development

Currently, Latvia is the most rapidly growing country in Central and Eastern Europe. In 2000, GDP real growth amounted to 6.6%, while in the 1st quarter of 2001 GDP growth reached 8.2%. The growth was determined by positive developments in all of the most important sectors of the national economy – in the 1st quarter 2001 trade rose by 10.3% (share in GDP structure 18.1%), a 10.6% increase was observed in transport, warehousing and communications (16.6%), 11.3% in manufacturing (14.9%) and 13.3% in business services (10.9%). For a longer period, stable output growth was observed in the construction industry (in the 1st quarter of 2001 the growth amounted to 4.9% and share in GDP structure 4.3%).

The agricultural sector has been declining in relative importance (1.7% of GDP (without forestry, logging and related services activities) in the 1st quarter of 2001, 2.5% in 2000, 2.6% in 1999), while the service sector accounts for a larger share of output constituting 70.9% in the 1st quarter of 2001 (70.2% of GDP in 2000, 68.5% in 1999). 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 37%).

The Consumer price index (CPI) in December 2000 increased by 1.8% (twelve-month increase), which is 1.4 percentage points lower than in the same period of the previous year and is below the European Union average inflation level. A year-on-year increase in consumer prices (excluding changes in administered and fuel prices) amounted to 0.3% in December 2000. The main factor causing inflation was a higher rise in administered prices (5.1%) and an increase in, fuel prices by 7.4% as compared to the previous year. Consumer price increase was also influenced by introduction of the excise tax on non-alcoholic beverages and higher excise tax rates on alcoholic beverages. In turn, the sub-index for food showed a price decrease, which was one of the reasons for the underlying inflation being at a much lower level than a year before (1.1 percentage points lower). In the first quarter of the year 2001, consumer prices increased by 1.1%, as compared to the same period in the previous year. The rise of administered prices was moderate this year (3.1%). The projected inflation level for the year 2001 is 2.5% (Bank of Latvia forecast).
Latvia’s external position and outlook have also improved. The external current account deficit has fallen from close to 10% of GDP in 1998 and 1999 to 6.8% of GDP in 2000. Furthermore, a notable share of this deficit was financed by foreign direct investment (FDI).

The consequent structural reforms started in 1991 are resulting in the gradual diminishing of economic discrepancies between the regions. Positive developments have been observed in the reduction of the rate of job–seekers in the most part of the districts, growth of non–financial investments (substantial increase in the districts of Talsi, Aizkraukle and Krāslava, as well as city of Rezekne) and growth of the share of private sector in GDP (e.g., the district of Tukums, as well as cities of Daugavpils and Liepāja). As an example, among the best performers, Ogre district could be mentioned. It is characterized by the lower than the average share of job-seekers (10.2% vs. 13.2% in 2000), high growth of non-financial investment per capita (increase of 135% on average in 1997-1999), relatively high share of private sector in GDP (more than 60%).

Unemployment has been gradually decreasing from 9.1% at the end of 1999 to 7.9% in May 2001. To address the issue of structural unemployment, which is strongly linked to regional unemployment, the Regional Fund was founded in 1998 with the main task to promote entrepreneurial activities and contribute to the foundation capital of enterprises. As a result, 1 800 permanent and 1 600 seasonal work–places were created in the assisted regions. Furthermore, in 2000 41% of all registered unemployed persons were involved in active measures to promote employment (training, courses, temporary public works). 66.3% of those who received special training have found employment afterwards. A positive trend in the decrease of long-term unemployment has been observed in 2000 – 39.6% of the long-term unemployed and 35.2% of pre-retirement age unemployed persons were able to find a job. To address the issue of regional unemployment, the State Employment Service 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. Qualified staff is being prepared in 5 regional establishments of higher education. The Mortgage and Land Bank of Latvia, using an EU Phare grant, is going to finance (give credits) to enterprises situated in the less developed regions of Latvia. Promotion of increased economic activity and competitiveness of enterprises, as well as human resource development and employability promotion in Latgale and Zemgale are targeted in the framework of the PHARE 2000 economic and social cohesion component.

Monetary conditions during 2000 were sufficiently tight to support the Bank of Latvia’s exchange rate objective. All monetary performance criteria stipulated for 2000 have been observed. Reserve money and broad money grew by 8 percent and 28 percent, respectively, during the year. Credit to the non-government sector grew robustly, by 38 percent, deposits to the banking system rose sharply, and deposit and lending rates showed a declining trend. These developments all point to a continued deepening of financial markets and increased confidence in the banking system and the economy more generally.

Financial sector developments continue to be encouraging, with key indicators improving. All banks are fully complying with the capital adequacy ratio, non-performing loans are declining, and profitability is rising.

Sound fiscal policy has played an important role in achieving the above-mentioned positive developments. The general consolidated budget fiscal balance of –2.8% of GDP represented a significant improvement over 1999. The Government undertook to ease the tax burden (through lowering rates of several types of direct taxation). At the same time, expenditure on integration has grown substantially, reflecting the strategic priorities of Latvia.

At the end of 2000 the total central government debt amounted to 570.2 million LVL (510.7 million LVL at the end of 1999). Nevertheless, the central government debt still remains at a comparatively low level, approximately 13% of GDP. In the first quarter of 2001 the central government debt increased by 46.5 million LVL, external debt decreased, but internal debt went up.
Thanks to a successful privatisation record, a strong layer of private entrepreneurs has emerged in Latvia. As a result of implementing the privatisation programme, in 2000 the private sector accounted for 67% of the GDP, and 71% of employed persons were 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 the remaining large state owned enterprises. In 2000 international tenders were launched for the selection of financial advisors for four large enterprises – the state JSC Latvenergo, the state JSC Latvijas Kūniecība (hereinafter – the Latvian Shipping Company), Limited Liability Company Lattelekom, JSC Ventspils Nafta.

Government has taken seriously the public perception and the outcome of the people’s referendum regarding the liberalisation of Latvenergo. In order to avoid creation of a private monopoly and a sharp increase of energy tariffs, it has decided to restructure Latvenergo prior to any change of its status. At present the reorganisation of Latvenergo is going on.

As regards the privatisation of the Latvian Shipping Company, none of the applicants paid the security deposit in the due time, even though they had confirmed their interest in purchasing the

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<td>Gross foreign debt</td>
<td>Billion ECU</td>
<td>0.33</td>
<td>0.34</td>
<td>0.33</td>
<td>0.35</td>
<td>0.6*</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>per cent of GDP</td>
<td>5.5</td>
<td>7.4</td>
<td>9.2</td>
<td>4.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Payment data</td>
<td>million ECU</td>
<td>194.9</td>
<td>315.6</td>
<td>453.0</td>
<td>268.4</td>
<td>328.2*</td>
</tr>
</tbody>
</table>

* EUR=LVL 0.588 (01.01.2000)
** EUR=LVL 0.570 (01.01.2001)
company. On 15 May 2001, the Government took the decision to continue the privatisation of the Latvian Shipping Company. The privatisation adviser has been asked to prepare new privatisation rules.

Continuation of the privatisation activities of the state-owned equity holding of Lattelekom largely depends on the progress of reviewing of the arbitration court case in the International Court of Arbitration. In September 2000, a consortium led by Chase Manhatten was selected as a financial adviser for privatisation of Lattelekom. The Government is ready to proceed with privatisation as soon as the arbitration case is settled.

The sale of the state-owned shares of the JSC Latvijas Gāze has succeeded. As a result of the activities of the Latvian Privatisation Agency (LPA), the state-owned equity holding decreased to 8% in the above company. The LPA has decided to continue sales of the state shares (sales of 2% of state shares are planned in July 2001).

Investment, both domestic and foreign, plays a key role in enhancing the capacity to cope with competitive pressures. In 2000 investment grew by 10.8%. Out of total non-financial investment in 2000, 25.8% went to manufacturing (10% more than in 1999) and 23% to the transport and communication industry. The stock of FDI during the last decade increased from virtually nil in 1990 to 1 275 million LVL at the end of 2000. More than 50% of the foreign direct investments in Latvia came from the EU countries. In the first half of 2000, sectors receiving the highest share of investment were wholesale and retail trade, industry and real estate. By the end of June 2000, the transport and communication sector still had the highest share of foreign investment (24.5 percent), followed by the financial sector (21.5 percent), industry (21%) and trade (17%). By the end of June 2000, in per capita terms, foreign entrepreneurs in Latvia in the form of FDI had invested LVL 536 (or USD 884), on the per capita basis Latvia has come close to the leading transition economies of CEE in terms of attraction of FDI. Investor trust is promoted by credit ratings awarded by the independent international agencies (Standard & Poors’s, Moody’s and Fitch IBCA) – these credit ratings are among the highest in the countries of CEE.

With the increase of FDI in Latvia, the net capital inflow has played an important role in keeping an overall surplus of the balance of payments of Latvia. In 1996, 136% of the current account deficit was offset by FDI, in 1997 – 151%, in 1998 – 55%, in 1999 – 54% and in 2000 – 52%.

In 2000 and the first quarter of 2001, sustainable growth of the Latvian banking sector continued, which is evidenced by an increase in all major indicators of banking activities.

At present there are 21 banks (2 less than at the end of 1999, because of one merger and one reorganisation), a branch of Merita Bank Plc. and a representative office of Dresdner Bank AG in Latvia. 66.5% of paid-up share capital of the banking sector is owned by non-residents, in 10 banks foreign shareholders hold over 50% of the share capital, 5 banks are subsidiaries of foreign banks. Government holds shares in only 2 banks and these holdings in total account for 3.7% of paid-up share capital of banks.

In 2000, bank assets increased by 37.5%, loans by 27.8%, deposits by 44.5%, equity by 18.3%. Audited profits of the banking sector for 2000 totalled 36.8 million LVL as compared to 12.8 million LVL in 1999. These positive development trends continued during the first quarter of 2001.

Capital adequacy ratio was 14% at the end of 2000 and 15% at the end of March 2001, well above the required minimum of 10%.

Banks increasingly focus on the domestic market, especially in their lending activities. This results in tighter competition in the banking sector. To meet the competitive challenge, banks are broadening the range of services they offer to their customers and increasing cost efficiency. A gradual consolidation trend is obvious in the banking sector.
During the first quarter of 2001, loans increased by 8.9% as compared to December 2000 and account for 42.8% of total assets. Loans to domestic enterprises and private persons account for 87.2% of total loans. 73.1% of total loans are medium- and long-term loans. The bulk of loans went to trade (27.2%), manufacturing (20.8%), transport, storage and communications (12.8%). 11.5% of total loans are mortgage loans, which increased by 14.9% during 2001. The net interest margin has narrowed and is on average 4%.

Thanks to the adoption of the law “On Mortgage Bonds” in 1998 and necessary secondary legislation, a system of mortgage crediting is fully operational in Latvia. The system has been rapidly developing; e.g. at the end of 2000 the value of mortgage bonds in the market was nine times higher than at the end of 1999. As regards the value of mortgage bonds in turnover, the Latvian indicator is the fourth best among the Central and East European countries.

The total turnover in the securities market reached 3.67 billion LVL during 2000, which was 61% higher than the turnover during the previous year. The total amount of securities in public circulation in Latvia increased by 27 million LVL and reached 350 million LVL by the end of the year 2000. Securities of 102 issuers were in public circulation by the end of 2000. 2000 is also characterised by the appearance of new financial instruments, mainly mortgage bonds and units of the investment funds.

At present, there are 23 insurance companies (7 life insurance and 16 non-life insurance companies) operating in the Latvian insurance market. Foreign insurance companies owned 100% share capital in nine insurance companies, while foreigners had a majority ownership (40%-72%) in six more insurance companies.

In 2000, the volume of insurance premiums grew by 1.1% compared to 1999. Non-life insurance companies earned 5.0 million LVL in 2000. The profit of life insurance companies amounted to 0.074 million LVL. At the end of 2000, 4% of technical reserves and 7% of total investments of life insurance companies operating in Latvia were invested abroad, while the same indicators for non-life insurers were 7% and 11% respectively. In 2000, the share of insurance premiums in GDP was 2.2%.

2.3. Assessment in terms of the Copenhagen criteria.

The existence of a functioning market economy

The target 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. Elaboration of the Pre-accession Economic Programme (PEP)\(^1\), which follows the principles of continuity and succession in economic policy-making reflected in the Medium Term Economic Strategy and Joint Assessment, was recently completed. 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 the Common Market principles. The successive realisation 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.

The Government has embarked on pursuing a strict fiscal policy in order to ultimately return the fiscal stance to its historically restrained path and to reduce the current account deficit. The “size” (government expenditure as % of GDP) of the Government has been gradually declining from 43% in 1997 to 37.7% in 2000, reflecting the diminishing role the state exerts on the economic processes.

\(^1\) The PEP was submitted to the Commission on 17 May 2001.
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.

Since the start of the market oriented reforms, Latvia has been persistently liberalising prices. At present, prices of the majority of goods and services are freely determined by the interaction of market forces. Only prices for the services of the natural monopolies are regulated. The cost recovery mechanism has been established.

The trade regime in Latvia is very liberal and fully complies with WTO standards. It is an integral part of the integration process into the European Union. During the last four years, the simple average MFN tariff has been reduced from 5.6 percent to 4.6 percent. Moreover, the current MFN rate of 0.5 percent applied to some industrial goods will be eliminated by January 2002. The average customs tariff rate for industrial goods has declined from 3.50 to 3.07 percent (basic rate) and from 3.04 to 2.22 percent (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. To this end, among other things, Latvia will gradually reduce tariffs on agricultural commodities. 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.

Land registration in the Real Estate Cadastre is virtually completed (98%). By 1 June 2001, 527 137 units (371 144 units by 1 June 2000) were registered in the Land Book. The National Computerised Land Book will become operational in July 2001, providing for a central registration and data transfer system.

The Latvian authorities have made considerable progress in establishing the institutions of a market economy. The State Aid Surveillance Commission effectively performs its duties. A new Procurement Supervision Bureau envisaged by the law “On Works, Supplies, Lease and Services Procured by Entities Operating in the Public Utilities Sector” will further enhance the supervisory capacity and transparency in the field of public procurement (the new institution will be fully operational from 1 January 2002). The Financial and Capital Market Commission will begin to function on 1 July 2001.

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 and Pre-accession Economic Programme. These documents provide a stable framework for pursuing consistent market oriented policies aimed at further strengthening the market economy and enhancing the ability to withstand competitive pressure within the EU 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. Strict fiscal policy allowed restricting the fiscal deficit at a level that does not undermine macroeconomic stability. The monetary policy pursued by the Bank of Latvia supported price stability. The proper policy mix has contributed to strengthening an environment more conducive to business activities and domestic investment, as well as attracting higher levels of foreign direct investment.

Besides the sound macroeconomic environment, the major criterion for fostering foreign and local investments has been the ability of the Latvian Government to take measures to create a stable and business-oriented environment.

The Adoption of the “Commercial Law”, which will come into force in January 2002, leads to the improvement of the business environment by greater clarity and simplification in the sphere of business activities in Latvia and a reduced number of forms of enterprises (from 17 to 5). The
institution responsible for the implementation of the Law is the Register of Enterprises, which is fully computerised. 8236 companies were registered in the Register in 1999 and, – 8048 companies in 2000.

In order to improve the business environment, a profound dialogue has been established over the last two years between the Government of Latvia and the business community represented by the Foreign Investors Council in Latvia (FICIL). The dialogue comprises regular meetings, elaboration, monitoring and updating of an Action Plan. Latvia is the only CEE country to have developed a concrete action plan towards implementation of recommendations of investors and carries out monitoring of implementation of the Action Plan together with businesses. On 24 April 2001, during the 4th High Council Meeting between the Government of Latvia and FICIL, it was acknowledged that good progress has been achieved in reducing administrative barriers and that customs and border crossing procedures have been considerably improved. The Action Plan on the implementation of the FICIL recommendations will be amended by the end of June 2001, emphasising further simplification of customs procedures and cadastral valuation of real estate.

Surveys on the Business Environment are annually carried out by the Latvian Development Agency to assess the business environment in Latvia and to identify existing problems, as well as to evaluate the effectiveness of measures taken by the Government to improve the business environment in Latvia. The results of the 2001 Survey are showing positive developments regarding simplification of customs and border crossing procedures, and business registration procedures.

Implementation of the Concept “On Enhancement of Investment Projects Significant for the National Economy of Latvia” has been ensured by amendments to the law “On Enterprise Income Tax” which came into force on 1 January 2001, providing tax credit up to 40% of the amount of investments in production equipment, technology, and real estate for a 10 year period. Draft regulation “On the Order of preparation and submission of application for investment projects to receive the status of the supported investment project” has been prepared.

In mid-2000 the Government approved a Concept on Public Support to Entrepreneurship, providing for optimisation of state support funds. A high level interministerial working group has been established for preparation of proposals on elaboration of a practical model for State support of SMEs. By 1 July 2001, the proposals on how to improve the existing State support programmes for SMEs by closer integration of the financial sector in this system will be presented to the Government.

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. Thus, during 1996-1999 public investments grew annually by an average of 26%. After a slight decline in 2000, further growth is expected in 2001. State investment priorities are realised through the Public Investment Programme. The State budget ensures co-financing programmes financed through EU funds.

Latvia competes successfully in the international market. Exports to the EU constituted 65.2% of total exports in the 1st quarter of 2001. The increase in the 1st quarter of 2001 compared to the respective period of the previous year was observed in exports to the EU of items with higher value-added – products of chemical industries and allied industries (115%), transport vehicles (26%), machinery, mechanical appliances and electrical equipment (12%) and miscellaneous manufactured goods (8%). Moderate growth in real wages, and a decline in unit labour costs, all indicate that Latvia remains competitive on international markets. Quality improvement and growing productivity were the main reasons behind this result. In 2000, productivity growth amounted to more than 6%, being well above the similar average EU candidate country indicator. At the same time, since remuneration grew slower and at the same time GDP per capita increased, it is possible to conclude that unit labour costs did not increase. The quality of Latvian goods has improved due to the introduction of the EU technical standards. The main trading partners were Germany (16.2% of total
foreign trade turnover), Sweden (8.3%) and the United Kingdom (8.1%). It is necessary to recall that major changes in the trade structure occurred after the Russian crisis of 1998 when Latvian companies managed to shift from Eastern to Western markets.

It has been recognised long ago that capital markets of the three Baltic States are too small to successfully operate individually. After the 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.

3. Ability to Assume the Obligations of the membership

3.1. 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. The negotiation chapter “Free Movement of Goods” was provisionally closed in March 2001. All implementing institutions, in particular in accreditation, standardisation, metrology and market surveillance are in place.

In the area of horizontal and procedural measures, the overall framework of the conformity assessment legislation is defined by the law “On Conformity Assessment” (adopted in August 1996, amended in October 1999) and regulations of the Government. The key institution for implementation the law is the Latvian National Accreditation Office (LATAK). The basic principles of standardisation are applied since adoption of the law “On Standardisation” in 1998. In the area of market surveillance the legislative framework was completed by adoption of the revised laws “On Product and Services Safety” and “On Liability for Product or Services Deficiencies” in June 2000.

Conformity assessment infrastructure is in place and consists of public and private conformity assessment bodies, testing and calibration laboratories, certification and inspection bodies. By 1 May 2001, the Latvian National Accreditation Office has accredited 126 testing laboratories; one personnel certification body; three products certification institutions; 5 calibration laboratories; 6 inspections and one quality systems certification institution. Since 1 June 1999 LATAK is a member of the European Co-operation for Accreditation (EA) and in order to sign the Multilateral Recognition Agreement (MRA) the assessment of LATAK has been carried out. The signing of MRA is scheduled for August 2001.

For strengthening of market surveillance system, several activities took place during the last year. In December 2000 the Market Surveillance Council was established. Equal rules for market surveillance authorities in sampling have been set, ensuring a strict procedure for collecting and analysing samples in order to ensure correct results. For the specialists of the Consumers Rights Protection Centre, training on market surveillance in the EU and on consumer complaints handling takes place on a regular basis. In 2001, staff of the Centre increased by 10 employees (in 2000 the number of employees was 34) (see also chapter 23. Consumers and Health Protection and chapter 7. Agriculture for food surveillance).

The scope of metrology is regulated by the law “On Uniformity of Measurements” (in force since March 1997). The law defines requirements and regulations for measurement instrumentation and pre-packed goods designated for realisation in the open market. The Concept of Scientific Metrology Development was drafted in September 2000. Tasks for research in the field of scientific metrology regarding economic, technical and scientific needs are formulated and strategies for their achievement are defined. One of the key tasks is to support the Latvian National Metrology Centre in maintaining and upgrading the national measurement standards’ basis. According to the Regional Programme on Quality Assurance Phare PRAQIII Report “Metrology in Latvia” of 1999, the flow
measurement laboratory of LNMC is adequately equipped for providing necessary measurements. The centre has a sufficient staffing level to perform all necessary activities. Training takes place on acoustic and vibration measurements and on control of pre-packed goods. Comparison of National measuring standards (electric resistance, mass, voltage) was carried out in EU metrology institutions. Latvia is a corresponding member of the OIML, WELMEC and BIPM. Latvia has submitted an application to become an associate of the EUROMET.

The standardisation system has been further strengthened according to the “Standardisation development programme”. For the year 2001, a further 2 500 standards are planned to be adopted. By May 2001, 4 474 standards were adopted, including 350 international standards, 3 898 European standards and 226 Latvian standards. It is foreseen that by 1 January 2003 80% of all EN standards will be adopted and the Latvian Standardisation body will meet all criteria to become a full member of CEN/CENELEC. An adequate staffing level and resources for realising the Standardisation Programme in the standardisation body have been secured. Employees of the Latvian Standardisation body are regularly trained.

Latvia was one of the first among candidate countries to start negotiations on the Protocol of European Conformity Assessment. The Framework Agreement was initialed on 10 July 2000 and four sectoral annexes on electromagnetic compatibility, electrical safety, construction products and toys were initialed on 5 April 2001. Negotiations on sectoral annexes for good manufacturing practice for medical products are in the final stage. Sectoral annexes for machinery, personal protective equipment, lifts, simple pressure vessels, pressure equipment and protective systems intended for use in potentially explosive atmospheres (ATEX) will be completed shortly.

As regards sectoral legislation, since November 2000 new legislation has been adopted in the areas of electromagnetic compatibility, gas appliances, conformity assessment of construction products, conformity assessment of wheeled vehicles, medicinal products, foodstuffs and metrology. Legislation on agricultural and forestry machinery will be fully implemented by 1 January 2003. It is expected that the requirements of the Directive 74/150/EEC into the Regulations of the Government will be implemented before 31 December 2001. The Government accepted the draft law “On Production and Marketing of Fertilisers” on 30 April 2001. The draft law foresees that the registration of fertilisers with a mark “EEC fertilisers” will be cancelled until 1 January 2003. Registration is applied only for statistical purposes and does not create any obstacles to trade. Amendments to the law “On Chemical Substances and Chemical Products” entered into force on 19 January 2001. These amendments provide the List of Dangerous Chemical Substances.

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Legislation on public procurement is largely in line with the acquis, including issues such 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 regarding public procurement, a new draft law “On Procurement for Government and Municipal Needs” was adopted by the Parliament in the second reading on 26 April 2001. The law provides for a clear definition of procuring entities and stipulates procurement procedures pursuant to the directives, as well as introducing new review procedures. Upon final adoption, it will replace the law “On Government and Municipal Procurement”. Cabinet of Ministers regulation “Procedures for Application of Methods for Selection of Bidders and for Choice of Bids” were adopted in October 2000 providing for the order of application of respective provisions of the law “On Works, Supplies, Lease and Services Procured by Entities Operating in the Public Utilities Sector”. In the process of fine-tuning the public procurement legislation, new regulations eliminating the non-commercial criteria for awarding contracts were elaborated and submitted to the Cabinet of Ministers.

Full compliance of the public procurement system with the acquis will be achieved through establishment of the Procurement Supervision Bureau (PSB). The establishment of the Procurement Supervision Bureau provided by the law “On Works, Supplies, Lease and Services Procured by Entities Operating in the Public Utilities Sector” (in force since July 2000) will enhance the supervisory capacity and transparency in the field of public procurement. The PSB decision will be binding for procuring entities. It will be entitled to consider complaints about compliance of the procurement procedure with the legal base and to suspend awarding of the contract. Preparatory activities for the establishment of the PSB have been carried out and the PSB will become fully operational in January 2002. The administrative capacity of the State and Municipal Procurement Monitoring Department was strengthened under the auspices of the Phare 98 Institution Building project. The degree of openness of the public procurement market has been significantly enhanced through placing information about public procurement offers in the Internet, thus ensuring public access to the tenders in Latvia. A concept “Development of the public procurement system through enhancing the role of the IT solutions” was submitted to the Cabinet of Ministers. The concept will introduce the system of conducting public procurement electronically allowing to raise the efficiency of utilisation of the budget resources. Latvia is close to completion of the negotiations on joining the WTO Government Procurement Agreement and will become a full-fledged contracting party of the WTO GPA by the end of 2002.

2. Free Movement of Persons

Latvian legislation will be fully in line with recognition procedures established by the general system directives (92/51/EEC, 89/48/EEC and 1999/42/EEC) and sectoral directives by adoption of the law “On Regulated Professions and Recognition of Professional Qualifications”, accepted by the Parliament on 20 June 2001. The contents and length of curricula for the professions governed by the sectoral directives de facto basically correspond to the EU requirements, but to ensure compatibility de iure implementing regulations of the law “On Regulated Professions and Recognition of Professional Qualifications” will be adopted. A mechanism is already operating for harmonisation of curricula with the requirements of the EU. The new legislation is also fully aware of the requirements to distinguish between professional and academic recognition.

The Academic Information Centre presently involved in recognising tertiary education related academic degrees and diplomas acquired abroad, will also be the institution responsible for issues concerning those regulated professions, which require tertiary education either in Latvia or abroad. Between 1 July 2001 and 1 January 2003, the employees of the institutions that are authorised to issue certificates of qualification recognition will be trained and prepared so that by 1 January 2003 Latvia is ready to start recognising professional qualifications according to the requirements of directives 92/51/EEC, 89/48/EEC and 1999/42/EEC. The administrative structures and institutions involved in recognition of professional qualifications will be strengthened in the framework of
Netherlands’s assistance project “Recognition of professional Qualifications in Latvia in line with EU-regulations”, which will last until the end of 2002. In this project, the institutional framework will be strengthened for a national system for a) recognition of foreign professional qualifications in line with EU regulations; b) dissemination of the relevant information and documentation in Latvia; and c) easily accessible information and advisory services in the framework of mobility and professional recognition.

To ensure implementation of citizens’ rights, a new law on the election of the European Parliament is being drafted and amendments will be made to the law on election of local authorities. It is expected that the drafts will be prepared by the end of this year. Suffrage of European Union citizens in Latvia will be ensured upon accession to the EU.

In order to implement the acquis on rights of entry into and residence within Member States, a new Immigration Law, as well as a new Regulation “On the Procedure of Issuing and Registering Residence Permits” and amendments to the Regulation “Employment of Foreign Citizens and Stateless Persons in Latvia” are being drafted.

The legislation of Latvia allows application of the principles of social security co-ordination. The implementing structures are in place. The implementation of several bilateral agreements on social security gave the opportunity to acquire the necessary experience for working on international social security issues.

Latvia has an institutional framework, the State Employment Service, for participation in the EURES network. A computerisation programme is being carried out to improve the information flow among branch offices (see also chapter 13. Social Policy and Employment).

3. Freedom to provide Services

Legislation will correspond to the main EU principles after adoption of the law “On Investor Protection” and amendments to the laws “On Securities” and “On Private Pension Funds”. The negotiations on chapter “Free Movement of Services” are provisionally closed.

The Board of Governors of the Bank of Latvia approved a number of regulations to further harmonise the regulatory framework for banking activities with the EU banking directives and Basel Core Principles for Effective Banking Supervision.

A revised “Regulation for Compliance with Restrictions on Exposures” specifies rules for compliance and reporting requirements on exposures. A “Report on Exposures Exempt from Restrictions on Exposures” was introduced to provide more information for supervisory purposes. The amended “Regulation for Compliance with Liquidity Requirements” details requirements for liquidity management policies of credit institutions. A new version of the “Regulation for the Preparation of the Credit Institution Investment Reports” lays down procedures for preparing and submitting of credit institution investment reports. In compliance with the requirements of the law “On the Prevention of Laundering of the Proceeds Derived from Criminal Activity”, “Guidelines for Developing Procedures for Identifying Suspicious Financial Transactions” were approved.

To ensure full compliance with the respective EU directive, amendments to the law “On Natural Person Deposit Guarantees”, which envisage applying a deposit guarantee scheme to legal persons from 1 January 2003, have been submitted to the Government and should be passed by the Parliament by the end of 2001.

Besides, the Bank of Latvia approved regulations on calculation of capital adequacy (with respect to credit institutions).

As regards the securities market, substantial efforts put by the Latvian authorities into the approximation process in the field of securities legislation allowed Latvia to achieve advanced level of harmonisation so that essentially only three EC directives are now at various stages of
implementation process. In order to complete the harmonisation process, the law “On Investor Protection” compliant with the EC Directive 97/9/EC was submitted to the Government. After adoption by the Parliament, the law will become effective on 1 January 2002. Naturally, implementation of the provisions of the law have to be co-ordinated with implementation of the EC directive 94/19/EC envisaging 2008 as the target date for attaining the minimum level of investor protection.


The SMC regulation “On Intermediary Activities with Securities that are not in Public Circulation within Latvia and are not registered by the Securities Market Commission” has been elaborated. Pursuant to the above draft amendments to the law “On Securities”, the regulation will extend the application of code of conduct requirements as defined by the EC directive 93/22/EEC. Furthermore, the regulation “On the registration of securities”, which is now being elaborated, will define the conditions for exemption from the obligation to publish a prospectus (89/298/EEC) and specify the requirements regarding the listing particulars for admission of securities to official stock exchange listing (80/390/EEC).

The SMC has adopted regulations on the registration of foreign brokerage companies. Regulations on capital adequacy of brokerage companies compliant with the EC Directive 93/6/EC will become effective on 1 July 2001. Introduction of the requirements will take place gradually until 2002.

Currently in the framework of a Danish project SMS lawyers are working together with Danish experts in order to elaborate a new law “On Securities”. The objective is twofold: to restructure the law in order to facilitate its use both for professionals involved in securities markets and fellow investors and to facilitate the full implementation of related directives.

With regard to the insurance market, amendments to the law “On Insurance Companies and their Supervision” were adopted by the Parliament in June 2000, clarifying the principles of conducting certain kinds of insurance business, providing guidelines on how to calculate own reserves, introducing the necessity to observe currency matching requirements and clarifying certain types of investment and their placement opportunities.

The Government approved regulation “On Countries where the Insurance Companies can invest their Technical Provisions, Own Capital and Cede Reinsurance”. This was the first step to bring the rules of investment abroad by insurance companies in compliance with the acquis. According to the NPAA, full liberalisation will be achieved by 1 January 2003.

Draft amendments to the law “On Private Pension Funds” have been elaborated. According to the NPAA, the amendments will be approved by the Government by June 2002 and adopted by the Parliament by January 2003.

Furthermore, in order to withdraw the restriction for foreign insurance companies to establish branches in Latvia, as well as to elaborate a legal base for the role of the supervisory authority in oversight of branches of foreign insurers, amendments to the law “On Insurance Companies and their Supervision” are envisaged to be adopted by the Parliament by the year 2003.

The following binding instructions of the Insurance Supervision Inspectorate (ISI) have been issued: “On asset and liabilities matching rules of insurance companies”; “On general rules for insurance portfolio transfer”; “On assistance insurance”; “On legal expenses insurance”; “On establishment and calculation of technical provisions”.

Following a decision of the European Integration Council, in April 2001 the Latvian Government undertook a commitment to achieve full implementation of EC Directives 84/5/EEC and 90/232/EEC
on third party liability limits by January 1 2003. Liability limits were already significantly increased on 1 January 2001.

As regards data protection, an independent data protection supervisory authority – Data State Inspection– began functioning in January 2001. Full independence of the Inspection is guaranteed by the “Personal data protection law” (in force since 20 April 2000), which implements the Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data (see also chapter 24. Co-operation in the field of justice and home affairs).

As regards the information society, “The Concept on e-commerce” was accepted by the Government in March 2001. The Action Plan drafted in line with the Concept envisages elaboration of all necessary legislation, including that necessary for transposition of the Directive 2000/31/EC (see also chapter 19. Telecommunications and information technologies)

Administrative capacity. All institutions necessary for the implementation of current laws concerning credit institutions, securities and banking sectors are in place, ensuring the proper functioning of these sectors.

Supervision of credit institutions is carried out by the Credit Institutions’ Supervision Department of the Bank of Latvia. At present, 50 staff members are engaged in both on-site examinations and off-site analysis. According to the law “On Credit Institutions”, on-site examinations must be carried out at least once a year. 47 on-site examinations were conducted in 2000. The focus was on assessment of borrowers’ financial standing and solvency, as well as enhancement of internal control systems to provide for prudent management of traditional and new risks.

The Securities Market Commission has been properly fulfilling its supervisory functions. 22 employees work in the four departments of the Commission. During 2000, authorised officials of the SMC conducted 28 on-the-spot checks in intermediary companies, including examinations performed in branch offices of five licensed intermediaries (in total, 17 branch offices in all of Latvia were inspected). Along with the inspections, the SMC has also performed analyses of financial statements and other documents submitted by intermediaries, assessing their compliance with normative acts governing the securities market.

In 2000, the Securities Market Commission received assistance on the approaches to investor protection under the auspices of the PHARE programme. Co-operation agreements with the securities marker supervisors of Denmark and Sweden have been concluded.

The Insurance Supervision Inspectorate can give binding instructions to the insurer concerning tariff policy, investment structure, profit distribution, reinsurance arrangement and transfer of the insurance portfolio or its part to another insurer (this can be done only for prudential reasons). 22 employees work for the ISI. In 2000, the Insurance Supervision Inspectorate performed 7 audits and 76 thematic checks in insurance companies and pension funds.

The Financial and Capital Market Commission (FCMC) will begin to function on 1 July 2001 according to the provisions of the law “On Financial and Capital Market Commission”. The degree of FCMC independence is comparable to that of the Central Bank. It has been decided that the internal structure of the FCMC will be organized along its functional lines and consist of three major Departments: Supervision Department, Legal and Licensing Department, and Regulations and Statistics Department. This model of internal organization will should prevent gaps or overlaps. The senior officials of the FCM Commission (Board of Directors – Chairman, Deputy Chairman and three directors of the Departments) have already been appointed, thereby paving the way for a smooth transition and ensuring continuity of financial sector supervision.

The law explicitly states that the FCM Commission is the successor of all rights and liabilities of the presently acting supervisory bodies. The Deposit Guarantee Fund and Insured Protection Fund will be transferred to the FCMC as from 1 July 2001 and managed by the Commission. To ensure
efficiency of the FCMC operations, negotiations with SIDA (Sweden) and the World Bank local office on technical assistance to the FCMC are being conducted.

4. Free Movement of Capital

The legislation concerning free movement of capital will be aligned with the main EU principles after the adoption of amendments to the law “On Natural Person Deposit guarantees” and the law regulating transactions with land. The negotiation chapter “Free movement of Capital” is provisionally closed.

Latvia has made considerable progress in the introduction of the principles of free movement of capital. In accordance with amendments to the law “On Security Services” adopted by the Parliament in December 2000, the sector will be liberalized for EU investors from 1 July 2001, meaning that the last restriction in the field of FDI will be lifted.

With regard to institutional investors, Latvia has undertaken certain commitments with respect to four guarantee funds. The law “On Natural Person Deposit Guarantees” will be amended with a view to abolishing the restrictions related to the cross-border investment policy covering resources of the Deposit Guarantee Fund (to be adopted by the Parliament by 1 July 2001). The legal framework of the Insured Protection Fund will be revised in order to abolish the existing provisions, which limit investment options to Latvian government bonds. The draft amendments will be elaborated by the end of 2001 in order to be adopted in November 2002. Investment policies for the management of the aforementioned funds as from 1 July 2001 will be determined by the Financial and Capital Market Commission (see also chapter 3. Freedom to Provide Services).

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.

As regards investments in foreign assets by supplementary pension funds and insurance companies, amendments to the law “On Private Pension Funds”, as well as the law “On Insurance Companies and Their Supervision” will be prepared by 31 December 2001 in order to be passed in October 2002, envisaging that the EU-incompatible investment restrictions with regard to supplementary pension funds and insurance companies be lifted.

The concept for a new law regulating transactions with land has already been elaborated and is being circulated for harmonisation with all the interested parties. The law will be adopted by the Parliament before 1 January 2003, bringing the legal basis for acquisition of land in full compliance with the acquis on capital movement.

In view of the commitment to bring in line with the acquis the regime of direct taxation, the Government adopted a Decision that from 1 January 2003 the existing differentiation in imposition of income taxes on dividends received from resident and non-resident companies will be removed.

In view of the commitment to achieve full compliance in the field of payment systems by 1 January 2003, the Bank of Latvia continued to fine-tune existing legislation. The Bank’s Regulation “On Credit Transfers” was amended (amendments in force from 1 January 2001) to bring its requirements in line with the EU directive “On cross-border credit transfers”. Further amendments to the law “On the Bank of Latvia” and the law “On Credit Institutions” have been prepared to introduce payments system oversight as a legal responsibility of the Bank of Latvia, regulate issuance of multi-purpose electronic payment cards and harmonise legislation with the EU directive on settlement finality.
5. Company law

The negotiation chapter “Company Law” is provisionally closed.

In the field of company law, legislation is closely aligned with the acquis. By adopting the “Commercial Law” in April 2000, the 1st, 2nd, 3rd, 6th, 11th and 12th company law directives have been transposed and a number of provisions contained in different legal acts have been consolidated. The “Commercial Law” will come into force on 1 January 2002. Amendments to the existing laws i.e. to tax laws, the law “On Annual Reports of Companies”, the law “On Accounting”, the “Criminal law” and the “Administrative Violations Code” are being elaborated in order to harmonise them with the “Commercial law”.

The institution responsible for the implementation of the “Commercial Law” is the State Enterprise Register (est. 1991). For the implementation of the “Commercial Law” the Government has allocated 402 504 LVL to the State Enterprise Register. The Register is fully computerized. The register exists in electronic form. When the new “Commercial Law” comes into force, the new information registration system will ensure double-checking. This means that technical staff will enter the data into the database and state notaries will check the entered data before confirmation of registration. 8 236 companies have been registered in 1999, compared to 8 048 companies in 2000. Information campaigns on the new “Commercial Law” are ongoing.

The legislation on accounting and auditing is in full compliance with the acquis. The law “On Sworn Auditors”, transposing 8th Directive 84/253/EEC, was adopted in May 2001 and will enter into force on 1 January 2002. The law regulates the legal basis for the professional operation of sworn auditors.

In order to facilitate implementation of the 4th company directive requirements, amendments to the law “On Annual Accounts of Enterprises” entered into force in April 2001.

The process of implementation of the International Accounting Standards is continuing.

A Manual on Preparation of Consolidated Annual Accounts was prepared in 2000, thereby facilitating practical implementation of consolidation requirements in the field of accounting.

In order to fulfil the educational requirements for auditors, a new Master Degree study programme on auditing was launched at the University of Latvia in September 2000.

From January 2002 the Ministry of Finance will carry out Latvia’s Sworn Auditor Association state supervision functions. With regard to administrative capacity in the area of accounting, work on the establishment of the legal basis for a co-ordinating institution regarding accounting standards is ongoing.


In the year 2000, the Patent Office registered 3 044 trademarks. 65 industrial designs patents and 162 patents for invention were granted. During 2000, 20 appeals against the decisions of the Patent Office and 148 oppositions were reviewed in the Board of Appeals of the Patent Office. During the first five months of 2001, 728 trademarks were registered. 28 industrial designs patents and 85 patents for inventions were granted. In January 2001, 1 892 invention patents, 46 357 trademark and 506 industrial design patents were in force.

In the field of intellectual property rights legislation is fully in line with the acquis. All institutions necessary for the implementation and enforcement are in place and are functioning. The “Strategic Development Programme on Development and Protection of Intellectual Property 2001-2005” and “Strategic Action Plan to Ensure Protection of Copyright and Neighbouring Rights 2001-2002” elaborated in the framework of the Programme have been submitted to the Government. The
Programme provides for the necessary actions to be taken by institutions responsible for legislation and enforcement bodies. The Plan includes effective protection of copyright and neighbouring rights, ensured and improved functioning and cooperation of state institutions and a positive public opinion through education about the role of copyright and neighbouring rights.

In order to facilitate the process and procedures that should be taken in the fight against piracy and counterfeiting, amendments to the “Criminal Law”, “Criminal Procedures Code” and “Administrative Violations Code” and to other laws and regulations have been elaborated.

The Regulation transposing Council Regulation 241/1999 amending Regulation 3295/94 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods have been elaborated.

A Regulation “Remuneration for Reprographic Reproduction of Works” setting the remuneration to be paid to authors and publishers for reprographic reproduction of works, as well the collection and distribution of remuneration, is being drafted. A Draft Regulation “On Blank Tape Levy for Reproduction of Audiovisual Works and Phonograms” (March 2001) and a new Regulation “On Film Distribution” (May 2001) have been submitted to the Government.

In 2000, 410 enterprises were engaged in film and video distribution and public exhibition, comprising a network of 1 182 market places, including 1 016 market places specialising in videocassettes sales and rental. 3 829 films were registered for distribution in Latvia. In 2000, the Film Register examined 11 209 video recordings suspected to be pirated.

In the year 2000, in accordance with statistical data of the Economic Police Office of the Ministry of Interior, concerning illegal actions with copyright objects, 101 protocols were drawn up for administrative offences, 28 criminal cases were prosecuted, 13 468 CDs, 15 243 videotapes, 5 820 audio tapes, 209 DVDs and 2 799 software CDs were seized. 14 inspections were carried out in enterprises related to the use of software and, as a result, 2 criminal cases were prosecuted and 6 protocols were drawn up for administrative offences.

By April 2001, concerning illegal actions with copyright objects, 78 protocols were drawn up for administrative offences, 14 criminal cases were prosecuted, 22 733 CDs, 2 309 videotapes, 525 audio tapes, 165 DVDs and 4 026 software CDs were seized.

In 2000, 2 300 pirated CD’s and 3400 audiotapes were seized.

The implementation capacity at the border and the judiciary has been strengthened, training for staff of the law enforcement bodies and the judiciary has been carried out (see also chapter Judicial system). The capacity of the Copyright and Neighbouring Rights Division of the Ministry of Culture is sufficient. Establishment of the Intellectual Property Supervision and Coordination Council as a coordinating institution facilitating cooperation among state institutions, municipalities and NGO’s dealing with the issues of intellectual property rights protection is under way. During the year 2001, the number of employees in the Intellectual Property Rights Subdivision in the National Customs Board will be increased by 2 employees. Furthermore, at each customs point one employee responsible for intellectual property rights protection will be ensured. Training seminars on intellectual property rights protection issues for customs officers are being held monthly and approximately 50 customs officers have been trained.

### 6. Competition policy

In the area of competition and state aids the process of legislative alignment is virtually completed and smooth functioning of the implementing institutions ensures the enforcement of the legislation.

To achieve full compliance with the Community acquis concerning the definition of dominant position and merger control, a new “Competition Law” was adopted by the Parliament in the second reading on 10 May 2001. The adoption of the law is planned by the autumn of 2001. Secondary
legislation in the anti-trust area will be improved and developed in line with the new “Competition Law”.

With regard to block exemptions, the Government has issued regulation on the exemption of agreements of liner shipping companies from the prohibition of agreements by the “Competition Law”. Regulations of the Government on exemption of agreements in rail, road and inland waterway transport from the prohibition by the “Competition Law” will be issued after the new competition law is adopted.

In order to clarify risk factors, which in certain circumstances may influence observance of fair competition standards and principles, analysis of the competitive environment in various markets (e.g., milk, vehicle distribution, IP telephony services markets) is being carried out. In 2001 Competition Council activated investigations by own initiative in the markets where indications of restricted agreements or abuse of dominance were found.

The Decision of the Association Council adopting the necessary rules for the implementation of Article 64(1)(i), (1)(ii) and (2) of the Europe Agreement came into force on 15 April 2001.

Administrative capacity. The Competition Council (established in 1998, 46 employees) is functioning with sufficient resources. During 2000, the Competition Council reviewed 71 cases (compared with 58 in 1999) on possible violation of the “Competition Law” and the “Advertising Law”. Most of the cases were related to abuse of dominant position (25) and unfair competition (21). There were 9 restricted agreement cases and 5 merger cases, 8 cases were related to the possible violation of the “Advertising Law”. The reviewed cases concerned violations in markets such as food processing, beverages, medicine and other consumer goods, oil and fuel, water supply and heating, airport and seaport services. Decisions and opinions of the Competition Council and information on investigation processes are regularly published in the mass media. Due to the growing complexity of the cases under investigation, the administrative capacity of the Competition Council has been strengthened by increasing of the number of employees (35 in 1999, 40 in 2000) and raising of the knowledge of employees in several seminars and training sessions. The File and Methodology Division has been established within the Competition Council in order to draft internal regulations and methodological guidelines on the application of the “Competition Law”.

Latvia has a fully functioning and consistent state aid control system. Since January 2000, all state aid schemes are covered by state aid control legislation. The legislation in the area of state aids is virtually in line with the Community acquis and enforcement is ensured by effective functioning of the State Aid Surveillance Commission.

With regard to transparency of aid, Latvia has prepared an annual report on state aids for 1999 in conformity with the methodology of the EC survey on State aid and presented it to the European Commission.

In order to bring existing aid measures fully in line with the Community acquis, the draft law “On Application of Taxes in Special Economic Zones and Free Ports”, together with the respective amendments in the original Special Economic Zone and Free Port laws and the law “On Control of the State and Local Government Aid to Entrepreneurial Activity” were approved by the Parliament in the second reading on 17 May 2001. The new law and the amendments will ensure full compliance with the EU Guidelines on National Regional aid (providing for a fixed link between state aids received and investments made), the Multi-sectoral Framework on regional aid for large investment projects, as well as Community rules on aids to sensitive sectors. It is envisaged that the new law “On Application of Taxes in Special Economic Zones and Free Ports” together with the respective amendments will be adopted by the end of June 2001. The amendments to legislation will come into force on 1 January 2002.

Since the existing law on state aid control calls for adjustment to the new acquis, a new law on state aid control will be drafted and adopted by June 2002.
A proposal for the regional aid map was submitted to the Commission services on 30 January 2001. Since there are no significant differences in regional development levels within Latvia, the European Commission agreed to proceed on the basis of the Latvian proposal for a uniform maximum aid ceiling of 50% NGE for the whole territory of Latvia. At the same time, Latvia will apply the principle of proportionality. Consequently, the maximum intensities will only be exhaustive in exceptional cases where the necessity to solve specific structural problems exists.

**Administrative capacity.** Between November 1997 and June 2001, the State Aid Surveillance Commission took 24 decisions (12 decisions in 2000, 3 in 2001). Most of the Commission’s decisions concern state aid for privatised enterprises experiencing difficulties, in order to help them implement a restructuring programme.

In 2000, most of the cases evaluated by the Commission were related to the programme of capitalisation of tax debts accrued before privatisation. Companies approved for state aid were active in different manufacturing sectors – pharmaceutical and wool processing, knitting, clothing industry, railway carriage repair, manufacture of radio and television apparatus etc. In the year 2001, the Commission extended the initial period of implementation of the state aid project for recycling waste paper disposed at waste disposal sites. The extension did not involve additional state aid. State aid was granted for environmental protection objectives. The Commission closely follows developments related to elaboration of the Pulp mill project and financial services centre project to ensure that from the very outset they comply with the competition *acquis*.

Since 17 April 2001, the manual on state aid policy is available on the Internet [homepage of the Ministry of Finance] in Latvian and English.

The administrative capacity of the State Aid Surveillance Commission has been strengthened with 12 seminars. Working meetings for the members of the Commission, officials of public administration institutions and members of the Parliament were organised on different state aid subjects in the framework of a Twinning project financed by the Phare’98 programme.

**7. Agriculture**

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 main goals of Latvian agriculture are to provide for efficient production levels corresponding to self-sufficiency of the domestic market and to maintain employment possibilities in rural areas as a relevant component of the rural environment.

In 2000, the share of agriculture in the total GDP constituted 4.1%, including 1.6% forestry and related services. This constitutes an increase of 0.7% compared to 1999. The total import volume of agricultural products in 2000 was 245.5 million LVL, an increase of 10% since; export volume constituted 65.8 million LVL, an increase of 2% since 1999. The trade balance of 2000 is negative – 179.7 million LVL.

The principal export products to EU member states in 2000 are milk and milk products, fish and crustaceans, beverages and spirits, oil seeds, seeds and fruits, sugar and confectionery. The principal import products from EU member states in 2000 are fruits and nuts, animal and vegetable fats and oils, coffee, tea and spices, beverages and spirits.

Support to 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 2000, State subsidies, as expressed in GDP actual prices, amounted to 0.48%.
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 expenditures. This support is gradually increasing from 7.4 million EUR in 1994 to 34.8 million EUR in 2001.

**Horizontal issues**

The Latvian authorities have made all the necessary preparations for efficient management, control and full utilisation of SAPARD financial aid in Latvia. Latvia was among the first candidate countries to have its Rural Development Plan adopted by the Commission in October 2000. The necessary administrative structure, i.e. the Rural Support Service, is in place to administrate SAPARD financial aid.

The Rural Support Service was established in January 2000 as an executive body for agricultural policy implementation in Latvia. The Rural Support Service (69 employees in the central office) and the 9 regional offices (336 employees) manage national subsidies for agriculture and rural development (in 2001 EUR 34.8 mill), as well as SAPARD financial assistance. Completion of the accreditation of the Rural Support Service as a SAPARD agency is envisaged for September 2001.

The administrative capacity of both central and regional offices has been strengthened by training in computer applications (82 persons) and English (55 persons). Managing officers received training in Paying agencies in Ireland (3 persons) and Germany (5 persons). Training in Financial controls, Monitoring, Technical controls and Evaluation of business plans has also been envisaged. These training activities are partly financed by the PHARE project and national resources.

Implementation of Part II of the project “Development of the management mechanisms of the Latvian agriculture in line with the EU Common Agricultural Policy”, submitted for Phare 2001, will strengthen the Rural Support Service in its implementation and paying function in the framework of SAPARD. It also will strengthen central and local capacities of the State rural authorities in setting up administrative structures, thereby ensuring fulfilment of the CAP requirements.

The SAPARD Multi-annual Financing Agreement between the European Commission and Latvia was signed in Brussels in January 2001, providing for indicative budget allocations for Latvia about 22 million EUR per year. The Annual Financing Agreement was signed in March.


Arthur Anderson has carried out the pre-accreditation audit of the Rural Support Service for the official recognition of the RSS as a paying agency for SAPARD pre-accession aid. In May 2001, representatives from Arthur Anderson, the Ministry of Agriculture, Ministry of Finance and State Treasury met EU auditors in Brussels to discuss the latest audit report.

The EU auditors accepted the audit report and an official presentation by RSS and State Treasury will take place in Brussels at the end of June. The EU auditors will visit Latvia in July in order to inspect the RSS and ST. It is envisaged that the SAPARD programme will be launched and the first project submitted in October 2001.

With regard to the implementation of trade mechanisms relevant to the Common Market Organisations, the responsibilities of the Rural Support Service include the issuing of licences and the management of tariff quotas in cooperation with customs authorities.

In the area of quality policy, amendments to the law “On Trademarks and Indicators of Geographical Origin” have been submitted to the Government providing for adoption of the Regulation of the Government implementing EU Regulation 2081/92 on protection of geographical
indications and designation of origin for agricultural products and foodstuffs. The amendments will be adopted by the end of 2001. The Regulation should enter into force by July 2002.

Work has continued on preparing the introduction of the Integrated Administration and Control System. Amendments to the Agriculture Law (in force from March 2001) provide for the setting up of a legal framework for the implementation of:

- IACS (until 1 July 2001);
- Agricultural Census to be taken on a regular basis every 10 years;
- Farm accountancy data network (until December 2001).

The project Establishment and Development of Agricultural Administration and Control System within State Investment Programme provides financial resources (1.3 million EUR for the period 2000-2003) for establishment and introduction of all registers and software for the IACS in accordance with EU requirements.

The implementation of the first part of the project “Development of the management mechanisms of the Latvian agriculture in line with the EU Common Agricultural Policy”, submitted for Phare 2001, will result in the establishment of a central agricultural database and data collection system on agricultural support schemes at a central and regional level.

The Agricultural Census began in June 2001 on the basis of the Farm Register. The first general data of the Agricultural Census 2001 will be available at the end of 2001. State financing to the amount of 1.3 million LVL was ensured. The questionnaire corresponds to Food and Agriculture Organisation (FAO) recommendations and EU legislative acts. National needs have been also taken into account. Preparation and checking of the data processing technical system and programming was completed in May 2001. The Census covers farms with agricultural land of at least 1 ha or where the value of production for sale is over LVL 1000 irrespective of the area of agricultural land.

The data of the Agricultural Census will serve as a basis for completion of the Farm accountancy data network in full compliance with EU requirements. By 2002 the results of the Agricultural Census will be specified and farm typology applied.

The legal basis for animal identification and registration in Latvia is in full compliance with EU requirements. The State Pedigree Information Data Processing Centre carries out the identification and registration of animals.

There is a centralized database on herd and animal registers. Bovine animals are identified in accordance with EU requirements: a centralized database, passports and individual identification with two identical ear-tags, containing a 14-digit identity number. In 2001, the herd and animal registration system for goats, sheep and pigs will be completed. Pedigree information on imported animals is also registered at the database.

With regard to cattle passports, the owner reports to the Data centre after inserting ear-tags and the information is added to the database. The Data centre prepares and sends the animal passport to the owner. The passport accompanies the animal throughout its life. If the animal is slaughtered, the passport is sent to the data centre by the slaughterhouse. In 2002, the database will be supplemented with information on animal health and the beef labelling system.

Common Market Organisations

The introduction of EU requirements and market mechanisms for arable crops and animal products is continuing. The implementation plan for CAP and Common Market Organizations (including intervention, support, export-import measures, etc.) was submitted to the European Commission in June 2001.
With regard to arable crops, over the past year Latvia has continued to practise intervention in the grain market, which was first introduced in 1998, based on legislation for the stabilisation of the cereals market. At present, market intervention is carried out on an annual basis. Transposition of the CAP directives regulating the grain market will be completed by December 2002. The introduction of a system of area payments has been started in 2001, covering cereals, legumes and oil seeds according to the EU model (Regulation 1251/99). The Rural Support Service administrates this system.

The sugar sector is virtually in line with EU requirements (Council Regulations No 1785/81, No 193/82 and the Commission Regulations No 1443/82, No 2670/81, No 65/82, No 1043/67). Intervention is carried out on a regular basis. The new sugar law and three implementing regulations set the rules for sugar production quotas and their allocation procedures, storage and sales, as well as for sales of sugar produced in excess of quotas. Customs duties will be levied on imported sugars.

The seeds and seeding sector is in line with EU requirements. With the adoption of the Regulations of the Government On propagating material of fruit trees and berry bushes and the Regulations On propagating material of vegetables, the system of certification of the propagating material of fruit trees, berry bushes and vegetables will be introduced by January 2002.

In the area of animal products, progress has been made in aligning the dairy sector with EU requirements. The Regulation “On the Circulation of milk and milk products” has been drafted. The Regulation provides for collecting information on milk purchases by processing enterprises from individual milk producers. Preparation has begun to establish the Milk Producers’ Register in order to gather the data necessary for applying the milk quota system upon accession to the EU.

In 2000, total milk production increased by 3% and the average productivity of dairy cows increased by 4% in comparison with 1999 figures. Deliveries for processing increased by 2.2%. The amount of high quality milk (in conformity with EU requirements) in total milk deliveries has increased by 32% since 1999.

In 2000, one more milk-processing enterprise obtained a permit to export its produce to the EU. At present, 10 milk-processing enterprises have been approved for exports to the EU. The total market share of those enterprises in Latvia is approximately 60%.

Studies and preparatory measures are being carried out to introduce state intervention principles for the pig meat and milk market by mid-2002, and for the beef and fruit and vegetable market by late 2002.

The law “On producer market organisation” will be drafted by the end of 2002. At present, studies are being carried out on the EU legislation in this field and experience on operation of producer market organisations in EU member States is being gathered.

Rural development and forestry

16.7% of the population in Latvia is employed in agriculture, forestry and hunting, of which 11.9% is in full-time employment. Employment in the agricultural sector is decreasing. Therefore, parallel to the development of the agricultural market, rural development is considered to be a priority, by supporting diversification of activities on agricultural holdings. SAPARD as a pre-accession financial instrument will considerably increase the ability of Latvia to carry out rural restructuring and development, by co-financing activities in rural areas such as organic farming, promotion of entrepreneurship, continuous training of farmers and modernisation of the food processing industry.

The Agricultural Development Programme (1998-2002) is being implemented. On the basis of this Programme, support in 2001 has been granted for: soil improvement, increased farm productivity,
organic farming, the development of livestock and crop farming and fisheries, farmer education, diversification of economic activities in rural areas, reduction of sowing risks and technical up-grading of agricultural production. Support (direct subsidies) for agriculture and rural development has been increased by up to 3% in the state budget, amounting to 34.8 million EUR in 2001.

The Rural Development Department of the Ministry of Agriculture is responsible for rural development, education, science and research, and land use. The Rural Support Service is the executive body for the management of national and SAPARD financial aid for rural development.

In the field of forestry, two framework laws were adopted in 2000 – the law “On State Forest Service”, (in force from January 2000) and the “Forest Law” (in force from March, 2000). With the adoption of these laws, all restrictions for movement of capital in the forestry sector were abolished. The laws implement EU requirements on sustainable forest management in all forests and compulsory forest regeneration. On the basis of these laws, regulations were adopted in line with the acquis, introducing forest protective measures, a regulation on the state forest register, a regulation on tree cutting on and outside forest land, and a regulation on the determination procedure of damages caused by infringement of legal acts regulating forest management and use.

A working group has been established to elaborate the National Forest Programme, which will be adopted in 2003.

The Ministry of Agriculture (two departments) ensures the regulatory and overall coordination functions in the forest sector. The State Forest Service (1650 employees) is an independent public institution under the supervision of the Ministry of Agriculture. It carries out the enforcement of legislation and secures forest fire prevention. The structure of the State Forest Service comprises a central administration, 26 regional units and the Forest Research Station. The state-owned Joint-stock company “Latvijas Valsts meži” governs and manages State forest property and ensures preservation of natural resources.

An inventory of state forests is being carried out by the State Forest Service in order to improve sustainability of forest resources and conservation of biodiversity in forest ecosystems.

The company “Baltic Pulp” was founded by the Latvian State (33% share), the Finnish company “Metsaliitto Group” (33%), and Swedish company “Sodra Group” (34%). The investment project provides for construction of a modern, environmentally friendly cellulose plant in Ozolsala (Jekabpils district) that would produce 600 000 tonnes of cellulose per year. The evaluation report which includes a description of the present situation, the possible impact on the environment, measures for preventing environmental problems, monitoring requirements and alternatives will be completed by the end of this year. A preliminary project assessment shows that it will be the largest investment project in the Baltic States and will considerably influence the GDP of Latvia (increase of 3-4%) and reduce the current account deficit by 20%. The realisation of the project will significantly improve regional development and will have a positive impact on regional unemployment (350 work places in the enterprise and approximately 1400 work places in related services in the municipality).

**Veterinary and phytosanitary issues**

Recognisable progress has been made in alignment with the veterinary acquis, particularly in veterinary medicine, animal welfare, identification and registration of animals, public health and control of animal infectious diseases.

The framework law “On Veterinary Medicine” will enter into force on 1 July 2001, which ensure full compliance of Latvian legislation with EU requirements as regards horizontal veterinary legislation. According to the law, a single competent authority (the Food and Veterinary Service) will be responsible for veterinary checks both internally and on the borders from 1 January 2002. At present, these activities are carried out by 2 institutions.
With regard to vertical harmonisation, further positive developments can be recorded on animal welfare, public health and disease control.

Latvia is ready to join the EU ANIMO system by the end of 2001 and would be interested in implementing this system starting with 2002. The State Veterinary Service and the Sanitary Border Inspection will be technically ready for implementation of the ANIMO system by the end of 2001. Amendments to legislation are being prepared to provide the appropriate legal basis for the introduction of ANIMO codes. Files of postcodes and files of future connection points have already been submitted to the Commission. Translation into Latvian of the ANIMO programme will be finished by the end of 2001.

The law on “Veterinary medicine” foresees the compensation for losses to owners of animals and animal origin products and measures taken by the State in case of breakout or suspicion of certain animal infectious diseases from the state budget. Farmers are eligible for 100% compensation in case of A list diseases (so called epizootic diseases) and up to 50% compensation for slaughtered animals in case of other infectious diseases.

At present, compensation from the State budget is provided to animal breeders in cases of eradication of epizootic diseases on the basis of the Regulation of the Ministry of Finance “On resources for extraordinary cases”.

With regard to control of animal diseases and animal health, Latvia’s legislation on outbreaks and eradication is in line with the acquis. The State Veterinary Service carries out the implementation of the State programme of animal infectious diseases control on the basis of the Regulation “The list of animal infectious diseases”. The approved instructions for animal infectious disease control lay down the procedure for extermination of animals and distribution of foodstuffs if any of the infectious diseases is detected.

Every year the State Veterinary Service (620 employees) approves the State Surveillance Programme of animal infectious diseases for the next year in respect of anti-epizootic and prophylactic measures and their periodicity. Based on the State Surveillance Programme, annual amounts of diagnostic kits and vaccines for animal infectious diseases are secured. The State Surveillance Programme for 2001 covers and monitors all animal infectious diseases possible in Latvia.

Administrative structures are in place, and the necessary national financial allocations have been granted to the State Veterinary Service and 12 regional veterinary laboratories.

The laboratory network of the State Veterinary Service (1 central laboratory and 12 accredited regional laboratories) ensures laboratory diagnostic functions in respect of animal infectious diseases, safety of animal origin foodstuffs, residue control and animal feeding stuffs, control of sanitary hygienic conditions within state surveillance and the control framework. Veterinary laboratories have been accredited in the area of food control in compliance with requirements of the LVS 45001 standard.

In 2000, administrative capacity is sufficient to carry out 42 new instrumental testing methods, thus responding to the increasing demands for testing for presence of hormones, antibiotics, pesticides and other substances in foodstuffs. The implementation of new methods is ongoing.

The State Veterinary service is implementing an annual control programme of animal growth stimulators and veterinary medicine residues in accordance with EU directive 96/23/EEC. The admissible limits of drugs and pesticides are set by the regulation “On compulsory safety requirements and maximally admissible amounts of medicine residues in animal origin foodstuffs” (EEC 2377/90) and regulation “On maximally admissible amounts of pesticide residues in animal products” (83/393/EEC).

Official veterinarians carry out the sampling. In 2000, residue control was commenced for eggs and game.
By January 2002, the new Food and Veterinary Service will carry out a residue control programme within the State surveillance and control system. The regulation “On residue control and its financing procedure” will be adopted by the end of 2001.

In 2000, the Residue Control Programme, recognized by the EU (Commission Decision 2000/159/EC) has been improved and the residue control plan has been approved. Analysis of the Residue Control Plan for 2000 has been carried out and proposals submitted for the Residue Control Plan for 2001. The Residue Control Plan for 2001 is implemented by Order of the Director of the SVS of April 2001.

In 2000, the procedures of veterinary checks on the border were improved by issuing certificates, which meet the requirements of directive 97/78/EC and decision 93/13/EEC for the consignments of relevant products certifying the results of checks.

Connection of the Sanitary Border Inspection (255 employees) and 24 sanitary border control posts, including a database of rejected consignments, has been completed and is functioning. A computer programme for inspectors of the SBI has been modified and is in full compliance with EU requirements in the sphere of veterinary border control.

The administrative capacity of the SBI to carry out border control of veterinary consignments has been further strengthened. Regular training of inspectors of the SBI and their study visits to EU Member States has taken place.

The Sanitary Border Inspection has started providing the perspective EU external border control posts with the necessary equipment and gear. 13 control posts of the Sanitary Border Inspection have been equipped with necessary appliances and gear for sampling, while 2 control posts have been equipped with laboratory furniture and equipment.

At present, construction work has been completed on the Eastern border of Latvia and the border control posts enable the Sanitary Border Inspection to carry out checks of consignments more efficiently and professionally. The Phare 1999 project “Development of integrated Latvian border management and infrastructure” foresees upgrading the border control post Terehova and building the necessary facilities to carry out veterinary and phytosanitary control in full compliance with EU requirements. The preparation of technical documentation has commenced.

The Phare 2001 project proposal “Inspection infrastructure at seaports and railroad border crossings” has been submitted to the European Commission. According to the project, adjustments of infrastructure in 2 seaports (Riga seaport and Ventspils seaport) and 2 railway stations (Daugavpils freight station and Rezekne freight station) will start in January 2002 and finish in August 2003.

The training programme for the Sanitary Border Inspectors (adopted in 2000) is being carried out. All sanitary border inspectors have been trained to carry out sanitary border control in compliance with EU requirements.

In the area of food safety, the transposition of the EU acquis is almost completed. According to the Concept adopted by the Government in April 2001, the Ministry of Agriculture will be responsible for legislative initiative in hygiene, specific safety and quality requirements in the whole food chain and unified policy of state supervision of food. The overall food safety requirement policy will remain the responsibility of the Ministry of Welfare. A Food and Veterinary Service will be established by merging the State Veterinary Service, the Sanitary Border Inspection, the State

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3 For market surveillance in non-food area, see chapter 1 Free Movement of Goods and chapter 23 Consumer and Health Protection
Quality Control Service of Plant Products and the part of the State Sanitary Inspection involved in food control. On 1 January 2002, the Food and Veterinary Service (executive body) of the Ministry of Agriculture will become operational.

10 enterprises producing thermally treated milk and milk products, 7 fishery production enterprises, 5 freezing vessels, 1 wild game processing enterprise and 1 enterprise producing animal casings are allowed to export their products to the EU.

According to the regulation “On approval and registration procedure of establishments” (March 2001) the inspection of all enterprises involved in the food chain has commenced. Approval Certificates of Food Processing Establishments are being issued and a unified register of enterprises will be set up by January 2003. After January 2003, only approved establishments will be allowed to operate in the market. Full compliance of processing establishments with all EU sanitary and hygiene requirements will be reached by the time of accession except those were which a transitional period is asked.

The State Veterinary Service is the competent authority for a) regular control of the food processing enterprises, b) provisional recognition and registration of establishments and granting exporting rights; c) laboratory examinations of raw materials, products, drinking water and hygiene status and d) audit of self-check systems in the establishments (HACCP).

In cases of irregularities the inspectors take administrative measures in accordance with the “Administrative Violation Code” and the law “On Procedure of Suspending Operation of Establishments and Organizations”. A warning, penalty or closing down of the enterprise are the most often used measures. In 2000, administrative measures were applied in 630 cases and operation of 99 production establishments, 10 wholesale establishments and 6 marketplaces was halted.

The Phare 1999 project “Modernisation and Capacity building for Food Control at National and Regional Level” is being implemented to strengthen the administrative capacity and improve the efficiency of the food control and supervision system operating under the Ministry of Welfare and Ministry of Agriculture.

In 2000, all veterinary inspectors underwent training. 28 veterinary inspectors were trained on surveillance and control of animal infectious diseases, 106 new veterinary inspectors in respect of veterinary expertise, 346 private veterinary practitioners in surveillance and control, and 76 SVS inspectors participated in international seminars.

In the phytosanitary sector, progress on alignment of legislation has been achieved, in particular regarding plant health and animal nutrition.


The new structure of the State Plant Protection Service (102 employees in the central office and 154 employees in the regional offices) was adopted in February 2001. Restructuring is based on the recommendations of EU experts. The new structure economises human and financial resources, and separates control and surveillance of implementation of legislation from coordination and planning functions.

The registration of producers and importers of particular plants and plant products was started in 2000. The ongoing registration will contribute to an improvement in the phytosanitary control system. Surveys on particularly harmful organisms are continuing. An inspectors’ manual has been
prepared. A phytosanitary emergency fund will be established by 2002. Authorisation of plant protection products is ongoing. The State Plant Protection Service controls plant protection products on the market according to the strategic plan.

The State Quality Control Service of Plant Products (27 employees) ensures laboratory diagnostic functions in respect of safety and quality of fruits, berries, nuts, vegetables and cereals. The Central laboratory is accredited by the Latvian National Accreditation Bureau to carry out mechanical, chemical and physically chemical testing of grains, grain grain-based products and combined foodstuffs. 45 methods are accredited.

The administrative capacity of the phytosanitary laboratory has been further strengthened. The phytosanitary laboratory has moved to new premises. Documentation for the accreditation of the phytosanitary laboratory is being prepared. To improve the work of the laboratory, new equipment has been obtained. Laboratory specialists (bacteriologist, nematologist and virologist) have been trained in France and Denmark. A project has been prepared for construction of a glasshouse for the phytosanitary laboratory, which is necessary to implement EU requirements related to detection of particular harmful organisms. In 2000, specialists of the State Plant Protection Service were trained in France on the structure, operation and provision mechanism. The PHARE 97 project trained 8 specialists in Germany. 3 SPPS laboratory specialists have acquired the new detection methods of plant quarantine organisms. Toxicologists and ecotoxicologists involved in evaluation and authorisation of plant protection products have undergone appropriate training in Denmark. Seminars have been organised on the phytosanitary control system in the EU.

8. Fisheries

1.2% of the economically active population in Latvia is employed in fisheries, fish processing, aquaculture and restocking of fish resources, fisheries science and state management.

In 2000, catches and fish production rose. The export and import of fish and fish products in 2000 continued to increase (export – 141,410 tonnes, import – 31,080 tonnes). Latvia exports more than 90% of its fish production. The main import products are mackerel and Atlantic herring raw material for the fish processing industry. The fisheries sector has a positive foreign trade balance (+32.56 million USD in 2000).

The Latvian fishing fleet consists of 400 vessels. Approximately 200 fishing vessels and 30 smaller fishing boats fish outside 2 nautical miles in the Baltic Sea and the Gulf of Riga. The high-sea fleet contains 12 vessels. The remaining vessels are used for fishing in coastal waters. The total number of fishing vessels in high seas and the Baltic Sea has fallen by 30% in recent years.

In 2000, the total catch was 136,500 tonnes. Sprat, Baltic herring, cod and salmon form 98% of the amount of fish caught in waters under Latvian jurisdiction and are mostly used as raw material for the local fish processing industry. The inland waters catch constitutes on average 2% of the total catch.

There are seven state-owned fish farms engaged in restocking of fish resources, employing 180 people. The number of private fish farms is growing. Carp and rainbow trout are the most popular species here. In 2000, the total production of aquaculture was 255 tonnes.

126 fish processing enterprises are registered in Latvia, with their main location being the coast of the Gulf of Riga and the Baltic Sea. A network of small-size fish processing facilities has been established over the whole area of Latvia. In 2000, fish production amounted to 142,650 tonnes, an increase of 3.6 thousand tonnes (2.5%) since 1999. More than 70% of the total fish production volume is produced in large fish processing enterprises. 7 fish processing companies and 6 freezer vessels comply with the requirements of the Directive 91/493.
The National Board of Fisheries (28 employees) of the Ministry of Agriculture is responsible for the implementation of the acquis. After the last EU Progress Report, particular attention was paid to: (1) creation of a fishing vessel register, (2) the common fisheries information system, and (3) a satellite tracking control system.

**Market policy.** Cod and herring, the only fish species caught by Latvian fishermen to fall under EU market intervention, are completely sold in the local market. Currently, Latvia does not expect any economic benefit from the implementation of the intervention mechanism in the pre-accession period. Within this period, Latvia is starting to implement the principles of the acquis, full adjustment will take place when Latvia becomes a Member State.

The Implementing plan for Common Market Organizations in the fisheries sector was submitted to the European Commission in June 2001.

In order to introduce the mechanisms of the Common Fisheries policy in Latvia, fish buyers are being registered, the first fish sales notes have been introduced and the data are being collated. The legislation on fish freshness and size criteria and categories for the production and the placing on the market was already adopted in 1999.

The State Veterinary Service performs the market surveillance of fish and fisheries products, including fish freshness and size criteria and categories (see also chapter 7. Agriculture for food surveillance). In 2000, all fish processing establishments were inspected by inspectors of the State Veterinary Service every three months, and 201 fishing vessels were inspected every six months. Three fish processing establishments have elaborated their HACCP manuals for implementing the system in these establishments.

Regarding resource management, inspections and control, the Regulation “On Vessel Capacity Measurements” was adopted by the Ministry of Transport in January 2001, thereby setting the capacity measuring method according to acquis requirements.

The Regulation “On Control of Fish Landing and Fish Sales, Transport, Storehouses and Production Premises”, setting the control order for fish landings, fish sales, means of transport, storage and production premises, was adopted by the Government in February 2001.

With the adoption of the draft Regulation “On Commercial Fishing in the Territorial Waters and the Economic Zone Waters” (planned in the third quarter of 2001), a legal basis for the implementation of a satellite based Vessel Monitoring System (VMS) will be set up and responsibilities of officials enforcing fishing grounds, fishing gears and documentation control will be defined, and fishing licence forms and logbooks will be in full compliance with EU requirements. At present, these forms are adopted by the order of the fisheries administrative institutions, while after the approval of the Regulation the forms will be adopted at government level.

In 2000, implementation of the State investment project “Establishment and Development of the Fisheries Administration and Control System in compliance with the EU Requirements” was started. As a result a) the ‘Strategy of fisheries information for a Joint Fisheries Administration and Control System’ is drawn up, b) a local computer network with internet access for all users is set up in the National Board of Fisheries and 3 new computer sets are acquired and c) a new computer set for the Latvian Fisheries Research Institute is provided to ensure improvement of the fishing database.

The capacities of the administrative body in charge of carrying out fisheries controls in Latvian waters, the Marine Environmental Board, have been strengthened since last year. The Marine Environmental Board of the Ministry of Environmental Protection and Regional Development performs a number of tasks: a) controls fishing in the waters under Latvian jurisdiction, b) controls abidance with the fishing regime and regulations, c) issues and invalidates fishing licences, d) performs fish landing and first fish sale transactions control at Latvian ports, and e) is responsible for the establishment and maintenance of the vessel satellite monitoring centre and the Vessel
Monitoring System. The Board registers fishing infringements and summarises data on national and foreign vessel landings in Latvian ports.

In 2000, 90% of fish landing control was ensured with the presence of inspectors. There is at least one inspector in each port. 38 000 LVL from Environmental Protection Fund were allocated for the implementation of this inspection system. Ensuring sufficient funding for the fish landing control is a priority for the state budget of 2002, as well as in the framework of medium term budget planning. In 2000, 13 584 inspections were carried out and 22 violations detected (compared to 11 366 inspections in 1999).

The technical capacity of the Marine Environmental Board has been upgraded, particularly for the collection and summarising of catch and landing data. In 2000, under the State investment project “Establishment and Development of the Fisheries Administration and Control System in compliance with the EU Requirements”, the Board acquired a new computer set.

Work is continuing on the development of operative data flow and data summarising by linking all structures of the MEB (including all ports in Latvia). The development of the necessary technical means is addressed by the implementation of the Phare 2000 project “Strengthening of Latvia’s fishery administration to meet the requirements of the Common Fisheries Policy (CFP)”.

There are 150 fishing vessels in the Latvian fishing fleet with an overall length above 24 metres. At present, 64 fishing vessels are equipped with a satellite tracking system. The draft Regulation “On Commercial Fishing in the Territorial Waters and Economic Zone Waters” sets transitional period (1 January 2003) for the installation of satellite equipment on the remaining fishing vessels with an overall length above 24 metres.

A pilot project with the Danish Ministry of Agriculture, Food and Fisheries is being carried out to prepare the establishment of the Fishing Monitoring Centre (FMC) in Latvia. The necessary national financing (22600 LVL) has been allocated. The Fishing Monitoring Centre will be established and will start to operate by the latest on 31 December 2001.

The Phare 2000 project “Strengthening of Latvia’s fishery administration to meet the requirements of the Common Fisheries Policy (CFP)” foresees measures to make the Vessel Monitoring System (VMS) operational, as well as training of staff involved in the FMC and VMS operation.

As regards structural actions, the National Fisheries Development Programme (1995–2010) is continuing. Two sub-programmes are being prepared in 2001 - Fishing Fleet Development Programme (2001-2003) and Fish Processing Industry Development Programme (2001-2006).

Measures are oriented to modernise the fishing fleet and fish processing sector, subsequently increasing quality and added value of fishery products. The programme will directly contribute to secure employment and development in the coastal regions (sustainable development of fisheries sector), covering fishery, aquaculture and fish processing.

Part 6 of the Regulation of the Ministry of Agriculture “On application procedure of the State subsidies for the development of fisheries in 2001” of January 2001 provides for 400 000 LVL for the upgrading of fishing vessels and refrigerator ships, improvement of fishing activities in the Baltic Sea and the Gulf of Riga beyond the coastal zone, development of aquaculture, and specialised training courses for the fishermen and employees of the fish processing enterprises.

The National Board of Fisheries established the database of the fishing vessel register in compliance with EU requirements. The data on fishing vessels operating in the Baltic Sea and high seas is already available in conformity with the acquis requirements. At present, approximately 110 fishing vessels have been re-measured according to the acquis requirements, while completion of re-measurement of all vessels is planned by the end of 2002.

Employees from the National Board of Fisheries and from the Latvian Ship Register have been trained in maintenance of the ship register in compliance with EU requirements.
The National Board of Fisheries annually issues the list of vessels by fish species permitted to fish in respective fishing areas and each additional vessel entry into the list is possible only after the approval by the National Board of Fisheries in accordance with the regulations on commercial fishing. The size and capacity of the Latvian fishing fleet corresponds to the available fish resources and there is no need to decrease its total capacity.

9. Transport policy

Most of the legislation has been transposed. With adoption of the remaining adjustments to the legislation concerning market access, fiscal harmonisation, social rules and technical requirements in the road transport, full compliance with the acquis in the road transport will be ensured. The minor adjustments have remained to be done in the legislation on railway and maritime transport. Administrative capacity was strengthened particularly in the road transport and maritime safety.

Road Transport. Amendments to “The Road Traffic Law” were adopted in February 2001, providing the basis for adaptation of Regulation 3820/85/ECC on the harmonisation of certain social legislation relating to road transport. The secondary legislation setting the driving and rest periods and the requirements for registering of driving and rest periods of drivers driving vehicles corresponding to the C1, D1, C and D category driving licences, providing for full transposition of the acquis requirements regarding the driving periods and the rest periods, is expected to be in force by December 2001.

It is planned to adopt amendments to the “Law on Carriage by Road” in the Parliament by November 2001, providing the basis for adaptation of own account operations related to the requirements of Directive 92/6/EEC on speed limitation devices, Directive 84/647/EEC on the use of vehicles hired without drivers, and definition of combined transport according to the Directive 92/106/EEC.

To harmonise the minimal tax rates to be applied in accordance with the Directive 99/62/EC on the charging of heavy good vehicles for use of certain infrastructures, the “Law on Annual Vehicle Tax” will be amended by the end of 2001.

Regulation “On Transport Operations of Abnormal Weight and Dimensions” (February 2001) provides the national procedure to be complied with in cases when weight and dimensions of road vehicles exceed the limits set out at Directive 96/53/EC on the maximum authorised dimensions in national and international traffic and the maximum authorised weights in international traffic for certain road vehicles.

With approval of amendments in the “Road Traffic Regulation” (expected at the end of 2001) on the measures allowing 11.5 t for driving axle of the vehicles, a full compliance with the Directive 96/53/EC will be provided.

Regulation “On Assessment of Type Approval of Wheeled Vehicles and their Type” (December 2000) provides for adaptation of the package of the acquis concerning type approval of wheeled vehicles and their parts and recognition of their type.

The amendments to the regulation “On Carriage of Dangerous Goods by Road” (January 2001), ensure introduction of the safety adviser institution in accordance with Directive 96/35/EC on the appointment and qualification of safety advisers for the transport of dangerous goods. The Secondary legislation defining functions of the safety advisers and examination order is expected to be adopted by the end of the year.

A package of Regulations of the Ministry of Transport has been adopted for the purpose of transposition of the EU technical and traffic safety requirements: Regulation “On Registration of Vehicles” (December 2000), amendments to the Regulation of Ministry of Transport “On Qualification of Drivers of Motor Vehicles (except tractors)” (December 2000), amendments to the

The Government has approved the orders “On European Agreement on International Occasional Carriage of Passengers by Coach and Bus (INTERBUS)” (December, 2000) and “On the Amendment to the Agreement on International Occasional Carriage of Passengers by Coach and Bus (INTERBUS)” (March, 2001), thereby providing for transposition of the acquis requirements regarding international occasional passenger service.

Administrative capacity. Regular roadworthiness tests are carried out by the Road Traffic Safety Directorate as per Directive 96/96. The number of roadworthiness tests has increased from 560810 in 1999 to 572065 in 2000.

With regard to introduction of a professional competence examination in accordance with the Directive 98/76/EC, the necessary legal basis has been established and the first exams were organised in April this year. At present 41 professional competence certificates have been issued.

The installation of equipment to control weights and dimensions is completed at the border posts along the border of Latvia with Belarus, Russia, Lithuania and Estonia, in order to provide for enforcement of requirements of the Council Regulation 4060/89 concerning the checks for transport authorisations. The control is performed by the Customs Service.

For the purpose of implementation of Directive 96/35/EC on the appointment and qualification of safety advisers for the transport of dangerous goods and Directive 2000/18/EC, the project “Safety Advisers for the Transport of Dangerous Goods” is being carried out in co-operation with the Danish Ministry of Transport. As a result of the project (ending December 2001), the safety adviser institution is going to be introduced in January 2002 and the system for training and examination of safety advisers and training of the teaching staff will be developed. It is supposed to involve at least three training centres in organising of training of safety advisers.

According to the institutional reform launched by the Government, the Road Transport Administration in charge of control of road transport operations will be transformed into a public agency. Preparation of a new “Concept on Control in Road Transport” will be completed in July 2001, defining the functions of the Ministry of Transport and the Ministry of Interior in the control of road transport. The concept will also cover implementation of the requirements of Directive 2000/30 on the technical roadside inspection of the roadworthiness of commercial vehicles.

Railway transport “Carriage by Rail Law” entered into force on 19 January 2001. The Law regulates issues related to the carriage by rail (carriage of passengers and luggage, carriage of freight, carriage of dangerous goods, liability regarding violations of carriage by rail mutual obligations, objections and claims), relations between carriers and passengers, senders and recipients of luggage, unaccompanied luggage and freight, as well as determines the requirements for carriage of dangerous goods. The secondary legislation, which will provide implementation of the Law, is expected to be adopted gradually by the end of 2002.

Due to the amendments to Directives 91/440/EEC (2001/12/EC) and 95/18/EC (2001/13/EC) and substitution of Directive 95/19/EC (2001/14/EC), Latvian legislation should be changed to comply with the Directive requirements. Requirements of the amended Directives concerning independence of infrastructure manager, safeguarding the separate accounting system for maintenance of infrastructure form the railway operation and the separate accounting system for the freight carriers from the passenger carriers, and an independent administrative institutions, are already in place.

It is planned to implement the requirements of the Directive on the interoperability of the trans-European conventional rail system in national legislation by the end of year 2002.
Amendments to the “Law on Railways” to be adopted by the end of 2002 will provide that requirements of Directive 96/48/EC on conformity of rail systems and components are taken into account in the case of building new or upgrading existing railway lines for high-speed operations.

Administrative capacity. The restructuring of the State Joint Stock Company Latvijas Dzelzceļš is continuing. The State Railway Administration has issued three carrier licences – one for carriage of freight and passengers, the other two for carriage of freight only.

The law “On Regulators of Public Services” (in force from June 2001) creates competence-stimulating conditions in the field of railway transport, provides for protection of user interests, and determines the methods of calculation of passenger carriage tariffs. According to the law, the Public Services Regulatory Commission will be operational from 1 September 2001 and will overtake the licensing functions from the Railway Administration, hence providing for separation functions between the licensing authority and authority providing services.

The secondary legislation of the “Carriage by Rail Law” will include regulation “On Carriage of Dangerous goods by Rail”. The appointment of Safety Advisers in relation to carriage of dangerous goods by rail should take place from January 2002.

Combined transport. The concept is under preparation on implementation of the Directive 92/106/EEC on the establishment of common rules for certain types of combined transport of goods between member states. Discussions are being held with the main partners from industries. Several proposals have been received regarding combined transport development, namely to reduce the annual vehicle tax, to decrease the enterprise income tax, to subsidise railways or ferry lines. The reduced annual vehicle tax seems to be the most acceptable alternative, since a decrease in the enterprise income tax registration is too complicated as it is impossible to separate the income tax part, which is calculated for other types of income. As for subsidising the railway or ferry lines, these depend too much on the state budget.

If a decision will be made to reduce the annual vehicle tax, the law “On Carriage by Road” will be amended with the definition of the combined transport, the procedure of filling out transportation documentation, implementation of a control system, and elaboration and control of the tax discount reimbursement procedure. The law “On Annual Vehicle Tax” will be amended to envisage annual tax discounts.

TAEIX assistance is being sought for elaboration of the Concept on combined transport development, in particular the study of requirements on the preparation of transport documents, the procedure for filling these out, the procedure for registration and the mechanism of reimbursement of taxes.

Maritime transport. To complete the legal framework in the field of maritime transport, the “The Maritime Code” and the law “On Maritime Administration and Maritime Safety” have been elaborated. “The Maritime Code” will regulate the main shipping legislation issues. The law “On Maritime Administration and Maritime Safety” will implement the principles and main requirements of EU Directives and Regulations and IMO instruments on maritime safety and will authorise the Government and ministers for the transport, welfare and environment sectors to issue regulations on maritime safety. “The Maritime Code” has been submitted to the Government.


In order to implement the 1974 SOLAS Convention and its amendments, the Global Maritime Distress and Safety System (GMDSS) will start to operate on the Latvian coastline in June 2001, hence providing for full integration of Latvia in the GMDSS network.

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Administrative capacity. The restructuring of the Maritime Administration of Latvia is continuing with the aim to increase its working capacity and expertise. After transferring some functions to the port authorities (VTS, pilotage, harbour master office), the Maritime Administration of Latvia now has the following units: Ship Register, Seamen Register, Hydrographic Service and Maritime Safety Inspectorate. The number of employees has been reduced from 480 to 130.

Port State Control and Flag State Control functions are performed by the Maritime Safety Inspectorate of the Maritime Administration of Latvia, having 14 employees in the central office and branch offices in 3 major ports of Latvia. One inspection ship has now been assigned for this purpose. The staff of the Maritime Safety Inspectorate is engaged regularly in training courses. Inspectors have participated in several training programmes supported by IMO and in the framework of the Paris Memorandum of Understanding. In order to implement the STCW Convention, the Maritime Administration of Latvia has elaborated new seafarers examination programmes, and organised training and certification of assessors. In May 2001 inspectors attended on-site training in the Netherlands organized by the Secretariat of the Paris Memorandum of Understanding. The second stage of this training is scheduled for October this year.

Audits of seafarer training centres, in order to comply with the requirements of the STCW 78/95 Convention and respective acquis, as well certification of port employees (pilots, VTS operators), are regularly carried out by the Maritime Administration of Latvia.

The performance of Latvia as a flag state administration has improved over the last year. The detention rate of Latvian (inspected) vessels detained within Paris Memorandum of Understanding has decreased from 14.6% in 1999 to 7.6% in 2000.

Latvia is maintaining the same level of performance in the Port State Control. According to statistics, 411 inspections were performed in 2000, which accounts for 18.4 % of the number of 2236 calling ships.

Air transport. Latvia has already harmonized a substantial part of its legislation with the aviation acquis that allows Latvia to join the European Common Aviation Area Agreement. In December 2000, the Joint Aviation Authority safety audit was carried out in the Latvian CAA. At present only the preliminary report is available. The assessment is positive.

Amendments in the law “On Aviation” have been drafted to provide full compliance with the Council Directive 94/56 establishing the fundamental principles governing the investigation of civil aviation accidents and incidents.

Administrative capacity. Council Directive 96/67 on access to the ground handling market at Community airports has been implemented to the extent required by the current traffic volume (less than 1 million passengers per year).

As for limitation of operations in the aerodromes located in the Republic of Latvia of aircraft not corresponding to the standards of noise emission, a total of 23 Chapter 2 aircraft have been deleted from the Register since 1995. The remaining 7 Chapter 2 aircraft will terminate operations under the Latvian register by 1 April 2002.

The administrative capacity of the Civil Aviation Administration (CAA) has been strengthened through various types of aviation training, including extensive job training (OJT) activities.

The CAA has participated in a number of international projects, including a) PHARE project on modernisation of the air transport sector in preparation of the CEE candidate countries for EU membership, b) PHARE project on air transport operational safety improvement in the CEE Candidate Countries, c) the EUROCONTROL Reduced Vertical Separation Minimum (RVSM) implementation project; d) the EUROCONTROL 8.33 kHz Channel Spacing Implementation Programme; e) the EUROCONTROL Airborne Collision Avoidance System (ACAS) project. CAA employees received training from the Transport Safety Institute (the Netherlands), the Aviation
Safety Institute (Sweden), and the Joint Aviation Authorities, JAA (the Netherlands). Training was also received in Vilnius (Lithuania) and Prague (Czech Republic). The training programmes covered aircraft accident investigation, crew resource management, flight crew medical licensing; aviation safety; aviation medical training; JAR-OPS and JAR FCL standards implementation; JAR – 145 adoption of aircraft maintenance organisation operations and certification procedures; JAR-66 adoption to aircraft maintenance personnel licensing and training.

Investments. The Memorandum of Understanding on the Implementation of ISPA was signed between the European Commission and Latvia on 1 December 2000. Four transport infrastructure projects have been approved by the European Commission so far, accounting for 57.9 MILLION EUR (43.4 million EUR are covered from ISPA). Implementation of the first project “Improvement of the Via Baltica highway between the thirteenth and twenty-first kilometre” began in April.

Number of projects have been commenced to improve the Transport Infrastructure Need Assessment (TINA) network. The road pavement of the total length of 228 km has been constructed. Memele and Gauja bridges on the Via Baltica route have been commissioned. Construction of the departure terminal and reconstruction of the platform in the airport “Riga” has commenced. Railways of a total length of 40 km have been replaced. Construction works of Ventspils railway junction “Juras parks” and its connecting roads have been started. Decontamination of the Karosta channel in Liepaja port has been started, construction of the port’s access roads is continuing, and the first phase of construction of the new container and Ro-Ro terminal with a capacity of 150 000 TEU per year has been commissioned. Deepening works have been started in the Riga port.

10. Taxation

A modern, transparent and fair tax system in Latvia creates favourable conditions for successful economic development and promotes investments in Latvia. At present, the basic principles of the Latvian tax system generally comply with EU requirements.

A major step towards complete compliance with EU legislation was the adoption of amendments to the law “On Value Added Tax”, effective from 1 January 2001. These amendments a) harmonise the terminology used in the law with EC Directives; b) clarify the place of supply of services in the context of rendering transportation services and services related to movable property and telecommunication services; c) provide for single procedures of imposition of the VAT on books printed in Latvia and imported books from 1 January 2003, thus abolishing discrimination; d) abolish exemption for services of printing houses from 1 January 2003; e) cancel the existing restrictions on input tax deduction.

The concept on implementation of a reduced VAT rate in Latvia pursuant to the 6th Council Directive has been submitted to the Government. According to the concept, a reduced rate of 9% is envisaged with respect to the following goods, supply and services listed in Article 6 of the law “On Value Added Tax”: supply of drugs and medical appliances; scientific literature, literature for educational purposes, children’s literature; mass media; water supply, sewage services, collection of waste; supply of special nutrition products for infants; funeral services. On the basis of the concept, the respective amendments to the law “On Value Added Tax” will be adopted by January 2003.

On 22 May 2001, the regulation “Order of refund of VAT to foreign legal persons – international haulers on fuel purchased in Latvia” was approved. This is the first step in a chain of measures to introduce a system of VAT refund for all foreign legal persons, which will be done through amending the law “On Value Added Tax” by January 2003.

With regard to excise tax on mineral oils, the EU defined minimum level is in general already applied. Necessary corrections of the rates will be made according to EU methodology by the moment of accession to the EU. The only exception refers to kerosene, gas oil and heavy fuel oil, where the current excise tax rate is lower than that stipulated in the EC directive. The rate will be
brought into compliance according to the transitional provisions containing a precise timetable, whereby the rate will be raised gradually during the time period until 1 January 2003.

With regard to the excise tax rate on cigarettes, at present the authorities are settling legal and other issues in order to switch from the fixed rate to the combined one (fixed + ad valorem) as required by the Directive 92/79/EEC. Though the combined rate will be introduced on 1 January 2003, provisions could be included in the law well in advance so that the State Revenue Service and taxpayers could prepare themselves for administration and compliance respectively. The EU minimum excise tax rate on smoking tobacco will be introduced by 2003 through amending the law “On Excise Tax on Tobacco Articles” in accordance with the EC directive 92/80/EEC.

Measures to reform the Latvian tax legislation and bring it in compliance with the acquis are in accordance with the principles of the Code of Conduct for Business Taxation. They do not introduce any provisions that may jeopardise a competitive international business environment. For instance, the draft law “On application of Taxes in Free Ports and Special Economic Zones” adopted by the Parliament in the 2nd reading in May 2001 takes due note of the principles of the Code.

The capacity of tax administration, successfully ensured by the State Revenue Service for 7 years, is being constantly strengthened, supported by improved tax revenue collection (an increase of 5.16% in 2000 as compared to 1999) and diminishing cost of collection of LVL 1 (1998 – LVL 0.027, 1999 – LVL 0.025, 2000 – LVL 0.019).

The modernisation of the SRS has been going on through the 1) SRS investment project “The IT of state revenue and customs policy implementation” 1997-2003; 2) SRS Modernisation project 1998-2002; 3) Phare’99 project “Strengthening of tax administration: institutional strengthening/development of human resources and development of tax audit management system”; 4) bilateral co-operation program between Denmark and Latvia for the period 1997-2000 (negotiations are going on with view to prolonging the programme till 2003); 5) Phare 2001 “Institutional strengthening of Tax and Customs Administrations” (under development).

Introduction of a three-level organisational structure has continued. The SRS has 28 territorial offices, 2 regional offices and a central administration with a total staff of 4 660 persons. The Vidzeme Regional Office, consisting of 7 local offices, will start operations in July 2001. Establishment of regional offices in the whole country will be completed by the end of 2002.

In 2000, for improvement of operational control, a new structural unit responsible for the development of methodology of the topical controls and for methodological management of these activities in the territorial offices was established. The audit methodology has been improved in order to increase the effectiveness of tax control activities. Guidelines on determination of tax payments by assessment method (both for physical and legal persons) have been developed. Procedures of topical controls have been elaborated and constantly upgraded based on the assessment of high-risk zones in trade.

Introduction of the internal audit system at the SRS has continued through practical implementation of the Strategic Audit Plan, where systems subject to auditing, as well as the time needed for auditing, the frequency of audits and the required financial resources are identified.

Great attention is paid to development of an efficient pre-court tax appeals system within the SRS. Respective Concept was developed, accepted by the SRS Board and submitted for approval to the Ministry of Finance.

The share of employees with higher education has been increasing every year and presently has reached 45%. Rotation of the directors of SRS territorial offices and heads of some structural units proved to be an effective tool of human resource management. Phare 1999 addresses inter alia the development of the SRS Human resources strategy (to be approved by the end of 2001), which will become a component of the SRS business strategy. In parallel, a manual on the SRS personnel management and development will be approved by the end of 2001. On the basis of tax
administration needs assessment, a number of training courses, seminars and workshops were organised both for the staff of territorial offices and Central administration so that 76% of the employees were involved. During 2000, training classrooms in 3 territorial offices were prepared for equipping with computers, which will be procured under the Phare 1999 project.

To improve the quality of services provided to the taxpayers, client service halls are being established. At present, 21 service halls have been created and are operating in territorial, local and district offices of Latvia. In 2000, a new training course on the basics of relationships with clients, oriented for training the taxpayers consultation division staff of territorial offices, was developed. 60% of the consultants have attended this course.

Under the framework of the PHARE 2001 project, improvement of the supporting system of taxpayers is planned by publishing booklets on tax application issues for various groups of taxpayers, as well as on changes in tax administration in connection with EU integration.

Beside the information already available since April 2001 in the SRS homepage, a new service to taxpayers has been developed, providing them with information about the VAT payers registered in Latvia. In 2001, three booklets were published on taxation issues, and they are available free of charge for taxpayers in all the territorial offices.

A pilot project of electronic filing of declarations was launched in the SRS in November 2000. Amendments to the law “On Taxes and Duties”, which foresee to legalise the use of electronic means of data processing, will be submitted to the Government by October 2001. In 2001, the operational plan “On the improvement of the VAT administration” was developed, addressing issues such as prevention of non-submission of VAT returns, enhancing credibility checks of VAT returns and improvement of enforcement activities.

Procedures of registration of taxpayers were simplified by adoption of amendments to the law “On Taxes and Duties”. Thus, since January 2001, enterprises, their branches and permanent establishments, public organizations and their unions are being registered in the Enterprise Register as taxpayers. The registration certificate issued by the Enterprise Register is at the same time the taxpayer’s registration certificate.

Introduction of EU-specific computer systems (INTRASTAT, VIES, SEED, FISCAL SCENT) and training of users is envisaged under the framework of the PHARE 2001 project “Institutional Strengthening of Tax and Customs Administrations”. With regard to internal IT systems, the new Tax Information system has been implemented in all SRS territorial offices. The Tax Information System provides the possibility of electronic online exchange of data with the other important registers (Enterprise Register; Citizens Register; State Social Insurance Agency, State Treasury).

Under the framework of the PHARE 2001 project, the SRS internal rules will be prepared in order to regulate the use and storage of information. Furthermore, there are plans to set up a structural unit responsible for ensuring data protection and security.

11. Economic and Monetary Union

The Latvian authorities have a clear-cut policy on the EMU: Latvia must be able to join the European Monetary Union at the time of its accession to the EU. The Government and Bank of Latvia have adopted macroeconomic policies designed to strengthen stability, which are compatible with the principles of the EMU. The negotiation chapter “Economic and Monetary Union” is provisionally closed.

The Bank of Latvia maintains an 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 European Union.

The operational standards and procedures of the Bank of Latvia largely comply with those of the European Central Bank. The major development in this respect has been the introduction of the Real
Time Gross Settlement System (SAMS) in September 2000. The SAMS is compatible with the TARGET system operated in the ESCB.

The law “On the Bank of Latvia” meets all major requirements of the Statute of the ESCB. To reach full compliance in all details, the Bank of Latvia has prepared amendments to the law, thus re-defining or fine-tuning certain provisions (inter alia, the concept of independence from any outside body or institution, professional secrecy obligation, prohibition to members of decision making bodies from engagement in second occupations, and some other provisions). These amendments will be submitted to the Government in the 3rd quarter of 2001.

Latvia currently complies or is close to complying with most of the Maastricht convergence criteria:

- **Public debt** is much lower than Maastricht requirements, i.e., 13.2% of GDP in 2000;
- There was no **budget deficit** in 1997 and 1998. The deficit in 2000 has been and in 2001 will be below the Maastricht 3% ceiling;
- The lat has been pegged to the SDR at a constant exchange rate since 1994, and it shows our readiness and ability to meet the **currency stability criterion**;
- Annual average **inflation** has decreased to 2.6% in 2000;
- **Government bond yield rates**, while still higher (8.8% for 5-year Treasury bonds) than Maastricht criteria, are on a downward trend, and Latvia expects to be able to meet the requirements in the medium-term.

### 12. Statistics

Statistical infrastructure, surveys methodologies and implementing institutions in Latvia are in line with EU requirements. The planned census and surveys were implemented. The negotiation chapter “Statistics” is provisionally closed.

The Central Statistical Bureau (CSB) is a state body that functions under supervision of the Ministry of Economy. With regard to the implementation of professional and methodological functions, the CSB is an independent institution.

Ensuring sufficient funding for the statistical infrastructure is one of the priorities of the Government for the state budget of 2002, as it is appropriately reflected in the framework of the medium term budget planning.

The administrative capacity of the Central Statistical Bureau is continuously being strengthened. The CSB employs 285 persons, of which 194 persons are with higher education (57 in economics, 37 in statistics, 16 in mathematics). 28 regional offices employ 156 persons, of which 77 are with higher education. In 2000, 116 staff members of the central CSB office and 128 persons from the regional statistical offices attended courses held by the Latvian School of Public Administration and Eurostat. Within the framework of the PHARE Multi-country Statistical Co-operation Programme and the PHARE National Programme, CSB staff members are constantly improving their professional skills. Staff turnover in the CSB was low (7.8% in 2000).

As regards **demographic and social statistics**, the Population and Housing Census was carried out in 2000. The first preliminary results of this Census were published in November 2000. In order to improve migration statistics, a system of asylum-seeker and refugee statistics has been introduced, and a survey of the acquisition and loss of citizenship was launched.

In the field of **regional statistics**, 5 planning regions are defined at NUTS III level. The respective GDP data were calculated. Demography, unemployment, agriculture, vehicle fleet, labour force and energy data are available for the REGIO database.

**Macroeconomic statistics.** Primary data sources were improved, changing financial surveys of non-financial corporations from the cumulative basis to actual payments during quarters. In 2000, the Description of the sources and methods used to compile non-financial National Accounts of Latvia
for 1998 was presented to Eurostat. After an evaluation of the compliance of macroeconomic calculations with the requirements of EU legislation, a plan of activities for the solution of concrete shortcomings has been made. In accordance with this plan, different activities were implemented aimed at evaluation of the present calculation methods and elaboration of improvements. The most important were projects on exhaustiveness of national accounts and deficit. Improvements realised during these co-operation activities are partly implemented in calculations for the years 1999 and 2000 and will be implemented for 2001. Training of specialists, including long-term stays, takes place within the framework of co-operation. Responsibility for Balance of Payments, as well as foreign direct investments statistics, has been handed over to the Bank of Latvia.

Concerning business statistics, the work on the formation of a more advanced data basis of the Business Register (BR) has commenced. It is possible to use information of the Taxpayer Register on data of the last payment of taxes for the updating of BR. BR containing information on Local kind of activity units (LKAU) and history of enterprises will be elaborated by the end of 2001 in full compliance with Regulations 2186/93 and 696/03. The questionnaires of the Structural business survey were improved in accordance with Council Regulation 58/97. Installing of the firewall increased the status of compliance with the EU requirements in the field of statistical data security.

The Labour Force Survey (LFS) questionnaire was improved and supplemented with an ad hoc module on transition from school to working life. Starting with the results of a survey in May 2000, the publication of LFS results has been simplified. The LFS is conducted twice a year. As of January 2002 a continuous LFS is being planned.

In 2001 the Labour Cost Survey was conducted in compliance with the requirements of Council Directive 530/99 in all the envisaged obligatory branches. The survey methodology is fully compliant with EU requirements.

As of 2001, freight by railway is counted in accordance with NST/R (Nomenclature uniforme de marchandises pour les statistiques des transports). The survey of cargo by road is continued in line with the requirements of Regulation 1172/98 that ensure high quality data on cargo by road.

In retail trade statistics, the work on the implementation of short-term statistics in accordance with the Eurostat methodological requirements is continuing in 2001. In 2000, the seasonally adjusted time series was introduced in accordance with international requirements. Introducing Regulation 58/97, for the first year data are being collected on retail trade purchases by the place of purchase.

Work was speeded up to improve the external trade data quality. New customs data control programmes were developed. During the sub-committee on trade and industry in May 2001, the European Commission acknowledged that the Latvian national statistical data is compatible with the data at the disposal of the Eurostat.

The mirror statistics exercise was made between the data of Latvia and the Netherlands. The main reasons of the inconsistent statistics were detected. Latvia also carries out the mirror exercise with Sweden.

The ongoing Agricultural Census will be competed in November 2001. The first general data of the Agricultural Census 2001 will be available at the end of 2001. The necessary state financing of 1.3 million LVL was provided. The questionnaire of the Census is in line with EU legislative acts and Food and Agriculture Organisation (FAO) recommendations. National needs have been also taken into account. Preparation and checking of the data processing technical system and programming was completed in May 2001.

The Agricultural Census is organised on the basis of the Farm Register and taken in the form of interviews. The Census will cover farms with agricultural land of at least 1 ha or where the value of production for sale is over 1 000 LVL irrespective of the area of agricultural land.
Updating of the Farm Register established by the CSB was started in 2000 and continued in 2001 in co-operation with the State Land Service. The Farm Register will be updated on the basis of the results of the Agricultural Census until December 2001.

13. Social Policy and Employment

Since the last regular report, progress has been made in aligning with the acquis, mainly in the area of labour law. The main efforts to upgrade the administrative capacity in this area included the training of employees of the State Labour Inspectorate and further improvements of IT systems, as well as training of employees of the State Employment Service. The negotiation chapter “Social Policy and Employment” is provisionally closed.

With the adoption of the “On Protection of Employees in the Event of Insolvency of their Employer” as well as the relevant secondary legislation, the legislative process will be completed. The necessary institutional infrastructure, namely the State Labour Inspectorate and State Employment Service, is being continuously strengthened.

“Labour Law” was adopted by the Parliament on 20 June 2001, transposing majority of acquis on labour law. The Law will come into force on 1 June 2002. The law “On Information and Consultation and Information of Employees in Community-Scale Undertakings and Groups of Undertakings” was adopted on 29 March 2001 and will enter into force on 1 July 2001. The draft law “On Protection of Employees in the Event of Insolvency of Their Employer” was adopted by the Parliament in the 1st reading on 21 December 2000. The law is expected to be adopted by November 2001 and will come into force on 1 January 2002.

As regards equal treatment of women and men, directive 92/85/EC is transposed by the “Labour Law”. General requirements for health and safety of workers and risk assessment are laid down in the law “On Labour Protection” that was adopted on 20 June 2001 and will come into force on 1 January 2002. Requirements of the directive regarding risk assessment and information, as well as cases in which exposure is prohibited, will be transposed by the regulation “On Internal Control of Working Environment of Undertaking” (expected to be adopted by October).

A comprehensive analysis of all legislation and governmental policies from a gender perspective in the social sector was completed. As a result, the Concept Paper on Gender Equality (national gender strategy) has been drafted and was submitted to the Government in May 2001. The main goal of the concept is to stimulate efficient, integrated and coordinated resolution of gender equality issues. To raise public awareness on the issue, the NGO Coalition for Gender Equality has been established. The Latvian Free Trade Unions Association and Latvian Adults’ Education Association are among the founders of this organisation. The first court case concerning equal pay went to the cassation where the decision that the employer had discriminated against a female employee was reinstated. A national conference “Women and Men – Cooperation and Competition” took place on 19 May 2001. Other activities included presentations on national TV, round table discussion etc.

With regard to health and safety at work, further alignment was achieved with adoption of the law “On Labour Protection” (see above) which encompasses the framework directive in the health and safety at work, and regulations for transposition of the acquis in areas of work safety and health protection and the equipping of workplaces at construction sites (adopted on 19 September 2000, will come into force on 1 August 2001), protection of workers in workplaces (adopted on 13 February 2001, to come into force on 1 August 2001), protection for work with chemicals (adopted on 13 February 2001, came into force on 1 April 2001) and protection for work with display screen equipment (adopted on 3 April 2001, came into force on 1 June 2001).

In May 2001, the Government accepted proposals on measures to increase the efficiency of operation of the State Labour Inspectorate by focusing its activities on high-risk branches of industry and enterprises, as well as development of a database for statistics and analysis of occupational diseases.
and accidents at work. A unified and advanced training system for occupational safety and health will be established by 2002. Free public access to information on ensuring safe working conditions will be ensured by 2005.

Legislation in the area of **public health** is already broadly in line with the acquis. In March 2001, the Government adopted the **Public Health Strategy** as an umbrella document for public health policy development. EU legislation on public health risk factors, environmental protection, food safety, animal health and consumer protection, free movement of health professionals, health and safety at work, pharmaceuticals, social security systems, research and information technologies is reflected in the document. The goal of the strategy is to improve the health level of the population and to improve the health indicators. The strategy will be implemented through an Action Plan, starting in 2002. A Public Health Agency (to be established on the basis of the National Environmental Health Centre) will monitor the implementation of the strategy.

A well-organised system of **epidemiological surveillance** and control of **communicable diseases** was developed with the clearly defined competence and responsibility of the involved institutions under supervision of the Ministry of Welfare. The basic principle for notifying communicable diseases is the physician’s responsibility to report to the competent authority. Here are two types of authorities:

- regional environmental health centres, which notify about 95% of all communicable diseases;
- a special centre for AIDS, STD and TB, which covers about 5% of all communicable diseases.

The responsibility of the regional environmental health centres and AIDS, STD and TB centre are to report to the National Environmental Health centre, which collects data of all communicable diseases and provides summarised reports to the Health Statistics and Medical Technology Agency. The Agency collects the routine statistics on morbidity, mortality and health care situation, including data on communicable diseases, and publishes yearly reports.

Already for several years Latvia has been implementing health care reform. To broaden public health activities on the regional level, it is planned to prepare a model for local health promotion infrastructure and financing by the end of 2001. Latvia has started and will continue to make more emphasis on prevention activities of family doctors (vaccination, screening of tuberculosis and cancer, consulting on tobacco cessation etc.).

In the field of **social dialogue** the main emphasis was placed on developing the bilateral social dialogue at sectoral and enterprise level by reciprocal negotiations between employees and employers. Tripartite social dialogue is already well established in Latvia. The mechanism for peaceful settlement of labour disputes will be improved by adoption of the draft law “**On Labour Disputes Settlement**” (submitted to the Government according to the White paper on Mechanisms of Labour Dispute Settlement). The law will ensure efficient settlement of labour disputes by defining mechanisms for settlement of individual and collective rights disputes, as well as of collective interest disputes. The draft law emphasises the role of mutual consultation and conciliation of both parties, which will be reinforced through establishment of a public conciliation institution, as well as by promotion of voluntary arbitration. The implementation of the mechanism for peaceful settlement of labour disputes will be assisted by the Phare 2001 Institution building project “Promotion of Bipartite Social Dialogue”. The project includes a) an information campaign on conciliation among employers and employees, b) development of criteria and selection of conciliators, c) training for conciliators in communication and negotiation skills, and d) starting up of conciliation services.

In order to promote bipartite social dialogue, the Training Centre of Latvian Free Trade Unions Confederation organises training for representatives of branch trade unions and the regional centres of trade unions (27) on a regular basis. In 2000, three seminars on social dialogue for branch representatives (60 persons, including 15 representatives from various employers’ organisations and
public institutions) were held with the assistance of ILO. In co-operation with the French trade-union centre CFDT, a seminar on social dialogue in the regions was organised in 2000 for representatives of regional centres (15 persons). Every year several projects for representatives of branches and companies are carried out in co-operation with the Swedish trade union centre LO/TCO. As for 2001, a seminar for deputy chairmen of branch trade unions (25 persons) took place in May and one for chairmen of branch trade unions (25 persons) is scheduled for June.

A positive record can be noted also in developing bipartisanship at enterprise level. Approximately 40 sector collective agreements have been concluded on wages and labour conditions, covering 55% of the enterprises where a trade union is represented. In 2000, there were 2436 collective agreements covering 211,887 employees (~25% of total employees). 2416 collective labour agreements were concluded at company level, and 20 at branch level. Currently the national legislation does not provide a procedure for mandatory registration of collective labour agreements. Social partners and the State Labour Inspectorate conduct the supervision of proper implementation of collective labour agreements. The “Labour Law” contains a provision on the legal extension of collective agreements, namely, sectoral collective agreements will be binding to all employers and employees in the sector if the respective collective agreement covers at least 60% of the workforce in that sector.

The registered unemployment rate decreased from 8.6% at the end of May 2000 to 7.8% in January 2001. Assessment of implementation of National Employment Plan for the year 2000 showed that the activities mainly contributed to improving employability and development of entrepreneurship. Activities planned and carried out in 2000 promote employment both directly and indirectly. Analysis of drafting and implementation of this inaugural plan reflected the need to improve definition of employment measures, criteria for selecting activities and implementation assessment indicators in respect to the goals. In the National Employment Plan for the year 2001 that was accepted by the Government on 6 February 2001, these deficiencies have been partly removed and the layout of activities has been adjusted to the particular EU employment guideline. The focus of National Employment plan has been switched to active employment measures. For promotion of employment and ensuring assistance for the unemployed, the draft law “On Assistance to Job Seekers and Unemployed Persons” was submitted to the Government. Last year, 10,267 unemployed persons (10%) were involved in professional training and 9,993 unemployed were involved in temporary public works. 66.3% of those who received professional training found employment afterwards. 39.6% of the long-term unemployed and 35.2% of pre-retirement age unemployed persons were able to find a job. The State Employment Service has appropriate regional structures (28 local offices and 34 subsidiaries) to address the issue of regional unemployment. For improvement of information flow between the branch offices, computerisation of the Service is being carried out (see below). The Service, together with the Ministry of Education, Chamber of Craftsmen, Latvian Employer’s Confederation and Latvian Chamber of Trade and Industry, is working on the introduction of a unitary training programme which would facilitate training possibilities and quality for unemployed also on regional level. Twice yearly a Labour Force Survey is conducted. In 2001, the Labour Cost Survey has been conducted in compliance with the requirements of Directive 530/99. The survey methodology is fully compliant with EU requirements.

To guarantee social insurance benefits for employees whose employers evade social insurance contributions, amendments to the law “On State Social Insurance” have been adopted on 20 June 2001. The amendments provide that an individual is entitled to a social insurance benefit even if the employer has failed to pay the required contributions for him.

In order to prepare for membership of the European Social Fund (ESF), the establishment of administrative and co-ordination mechanisms and training of staff to work with the ESF is set as a priority up to January 2003. Monitoring and administration institutions for ESF will be established on the basis of an interrelated package of legislation that is currently under preparation – the law “On Regional Development” and several amendments to other laws (for more, see chapter 25. Regional policy and co-ordination of structural instruments). The draft Regulation “Administration of the
European Social Fund Measures in the Republic of Latvia” will specify competencies of institutions involved in the financial administration, monitoring and implementation of ESF. The National Centre for ESF management training has been set up on the basis of the State School of Public Administration. These preparations are closely connected with EU PHARE project activities, particularly the “Horizontal Special Preparatory programme for European Social Fund” and the “Special Preparatory programme for the Structural Funds.” In the framework of those projects, altogether 277 persons from public administration institutions, municipalities, and representatives of social partners attended seminars at local and national level. 22 persons participated in study visits to Ireland and Finland. The European Integration Council adopted a national Training Plan for ESF in April 2001. In addition to the National Training Plan, the State School of Public Administration launched a training course to inform civil servants about the ESF.

Substantial reforms in the field of social protection are continuing successfully. Latvia was one of the first countries in Central and Eastern Europe that started to implement consistent reform of the “pay-as-you-go” (PAYG) pension system to introduce the “notional defined contribution system” (NDC). One of the main elements of the reforms - creation of a new pension system consisting of three tiers is well on the track. The new pension system consists of: a) first tier - state mandatory non-funded pension scheme (Notional defined contribution (NDC PAYG)); b) second tier - state mandatory funded pension scheme; c) third tier - private voluntary pension scheme. The first and third tier had already been introduced. The pension system reform will be completed with the entering into force of the law “On State Funded Pensions” in July 2001 (adopted in February 2000).

Public information campaign on second tier of pension system is being carried out.

After adoption of the concept on a guaranteed minimum income (GMI) in February 2000, a pilot project for implementation of GMI has been carried out in 21 municipalities for 6 months. Following evaluation of the pilot project, amendments to the Law “On Social Assistance” have been submitted to the Government. GMI, as a single benefit, is replacing several existing ones provided by local governments. Local government will grant the GMI after assessment of personal income. Initially the GMI level will be set at 21 LVL. To ensure the social integration of the elderly, unemployed, young and disabled persons and to fight marginalisation, on 29 August 2000 the Government adopted the Conceptual Framework Poverty Reduction and the Poverty Reduction Strategy. The Strategy is targeted to eliminate causes and consequences of poverty with the development of the Poverty Reduction Action Plan, poverty monitoring system, involvement of municipalities in poverty reduction activities, incorporation of the poverty reduction policies in the mandate of regional development institutions, and establishment of community-based advisory boards on poverty. The Regional Development Board is responsible for the overall poverty reduction policy co-ordination. The Concept Paper on Development of Social Care Services for promoting development of efficient social care services oriented towards clients’ needs has been submitted to the Government.

Inspectors of the State Labour Inspectorate have undergone training on health and safety at work in the field of asbestos, risk assessment, enterprise internal control procedures and enterprise rating systems. Within the framework of the Public Investment Programme (for the period 2001-2003) upgrading of the IT systems of the State Labour Inspectorate is taking place and all regional branches of the SLI are being connected in a single network, linked to the information systems of other public institutions. Further strengthening of the capacity of the SLI is envisaged within the framework of Phare Pre-Ins Facility project “Improvement of working environment in private and privatised enterprises”. Awareness of new legislation in the field of labour law among inspectors of the SLI is being promoted. The Phare 1999 Consensus III project “Further Approximation of Legislation and Enhanced Institution Building for Occupational Safety and Health” started in May 2001 in cooperation with Spain, focusing on reforming organisation and planning in the Labour Department of the Ministry of Welfare and the SLI, improvement of information flow and development of controlling, monitoring and evaluation systems.
According to the “Labour Law”, the State Labour Inspectorate will be responsible for supervision of the posting of workers (directive 96/71/EC). The employer posting an employee to work in Latvia will have to provide information on the name and surname of the employee, beginning and duration of employment, as well as place of employment.

An audit of the State Employment Service (SES) was carried out over the last year. A new regulation for public procurement and a new accounting programme has been introduced to improve transparency and control over the Service’s funds. Computerisation of the Service is being carried out to improve information flow between the branch offices of the State Employment Service and to facilitate availability of information necessary for participation in the EURES network. Last year, altogether 362 employees (67%) attended different training courses on issues related to employment, legislation, psychology, ethics, communication skills, and the European Union. 279 employees (50%) took part in courses on working with clients. The Ministry of Welfare and the State Employment Service concluded a Performance Agreement for the year 2001, which will improve cooperation between ministry and Service and reinforce control over expenditures of SES operations and active labour market measures.

Taking into consideration that implementation of directives 75/129/EEC and 98/59/EC on collective redundancies requires involvement of a competent public authority, the State Employment Service is designated as the competent authority in Latvia in this respect. Obligation to inform the SES on planned collective redundancies is set in the new “Labour Law”. This enables the SES to seek solutions to the problems caused by collective redundancy, for instance, by offering information on available job vacancies to redundant people and by providing them with an opportunity to join job seekers’ clubs, which provide consultations about the rights and obligations of unemployed person and advise on writing a CV, preparing for job interviews, etc.

For implementation of the Law “On Protection of Employees in the Event of Insolvency of Their Employer”, a guarantee institution following the principles of the acquis will be established once relevant legislation will be in place. The procedure for submission, examination and satisfaction of employees’ claims will be laid down by a Regulation.

14. Energy

Latvia’s policy towards the internal energy market follows the EU approach. Legislation is mostly in line with the acquis. Enforcement of the law “On Regulators of Public Utilities” will ensure adequate capacity to perform regulatory functions.

Competitiveness and the Internal Energy Market. Measures are being taken to open the electricity market gradually. “The Energy Law” of September 1998 promotes the formation of independent producers and ensures free access to the power system for producers and eligible customers. The Energy Regulation Council accepted the Grid Code in May 2000. Regulated Third Party Access to electricity grids will be applied. The energy regulator in December 2000 approved the transmission and distribution system services tariffs for eligible consumers. In accordance with the Grid Code, the new cost allocation and pricing system for transmission and distribution tariffs will be introduced in 2001. In November 2000, the Government adopted the order “On annual quantity of electricity consumption needed for obtaining status of eligible consumer for year 2001”. The threshold for eligibility was defined at 100 GWh/year in 2000 and 40 GWh/year in 2001.

The reorganisation of the JSC Latvenergo is ongoing. The Plan for restructuring and timing for preparation of the main decisions was accepted by the Ministry of Economics in November 2000. Certain tasks of restructuring are completed: a) Transmission System Operator is established within the JSC Latvenergo. The decision on establishment of an independent Transmission System Operator will be taken by October 2001, b) internal restructuring of the Transmission System is completed, c) merging of two Combined Heat and Power Stations is completed, d) merging of three Hydro Power Stations into single body is completed. Restructuring of social objects is partly completed.
Generation, transmission and distribution are unbundled at the bookkeeping level, with exception of “federal” taxes, which are paid at the company level. The preparation of the restructuring plan of Distribution System and the proposals on unbundling of the generation, transmission and distribution continues. Latvia, Estonia and Lithuania continue to co-ordinate efforts with the aim to create the Common Baltic Electricity Market. The common action plan concerning liberalisation of the market and providing competitiveness has been discussed.

The Ministry of Economics has established a working group with an aim of reviewing gas market liberalization issues. The Working group will prepare the concept for liberalization of the gas market by July 2001. The privatisation process of the JSC Latvijas Gāze is ongoing. As a result of a sale of the state owned shares of the JSC Latvijas Gāze, the state owned equity holding has decreased to 8%. The Privatisation Agency, which bears responsibility for the privatisation process of the above-mentioned company, has decided to continue sales of the state shares (sales of 2% of state shares are planned in July 2001).

Security of Supply “The Concept on Formation the Oil Product Reserve” adopted in the Government in February 2000 is currently being reviewed in order to ensure consistency with Directive 68/414/EEC as amended by Directive 98/93/EC on imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products. According to the new scheme approved in the European Integration Council in May 2001, both the state and entrepreneurs will participate in financing of establishment and maintenance of oil stocks. The new Concept will include a detailed plan and financial commitments on the level of oil stocks to be progressively built up to 90 days of consumption by December 2009 in order to comply fully with provisions of the acquis. The secondary legislation will have been adopted gradually before December 2002.

Pre-investigation, exploration and production of hydrocarbons. In April 2001, the first offshore licensing round for pre-investigation as well as for exploration and production of hydrocarbons was announced. The concept on “Hydrocarbon pre-investigation, exploration and production onshore” has been drafted with the aim to determine the viewpoint of government institutions on the question of ownership of subsoil minerals and in order to elaborate subsequently a set of respective regulations. The respective regulation, meeting requirements of Directive 94/22/EC, will be approved by December 2002.

Energy Efficiency. “The National Energy Efficiency Strategy” was approved in Government in November 2000. It includes an overview of the existing situation regarding energy efficiency and energy intensity in different sectors of the economy and planned measures to increase the efficiency of use of energy. The strategy includes a detailed plan for implementation of the acquis in the energy efficiency field and Latvia’s participation in the SAVE II programme.

In order to implement the Strategy, a package of legislation was adopted by the Government in January 2001. It provides for transposition of the acquis in the area of energy efficiency labelling (see also chapter 23.Consumer and Health Protection).

The Ministry of Environmental Protection and Regional Development will submit the “Programme for Improving Heat Efficiency in Public Buildings”, which is an integral part of the “National Building Programme”, for consideration in the Cabinet by the end of the year.

The law “On Radiation Safety and Nuclear Safety”, adopted in its new version in November 2001, establishes the legal framework for all practices with radiation sources, including activities related to research reactors, fuel cycle, spent fuel and radioactive waste management facilities. More than 15 new regulations substituting existing secondary legislation will be adopted by November 2001 in order to reflect the new institutional system in the field of nuclear safety.

The Additional Protocol to the IAEA Safeguards Agreement for the Agency’s application of strengthened safeguards have been approved with Latvia in December 2001.
The decommissioning of the Salaspils Nuclear Reactor is ongoing. The public company RAPA Ltd. monitors the Salaspils nuclear reactor, ensures its conservation and dismounting and generally manages Government property. The Steering group was created in January 2001 to coordinate the Salaspils decommissioning project.

**Administrative capacity.** The law “On Regulators of Public Utilities” (in force from June 2001) envisages establishment of a unified state public service regulation procedure in a number of fields, including energy, and establishes the legal framework for providing such services. The new regulatory environment will ensure the separation of energy policy formulation and monitoring functions from regulatory functions, and will ensure independence of the regulatory body. The Public Services Regulatory Commission will begin work on 1 September 2001 and will overtake the regulatory functions from the Energy Regulation Council. According to the amendments of the “Energy Law” (May 2001), the Licensing Bureau, which is the executive institution of the Energy Regulation Council, will be reorganized into a structural unit of the new regulatory body by October 1. Accordingly, continuity in performing the regulatory function in the field of energy will be ensured.

In December 2000, the Energy Department of the Ministry of Economy was enlarged with creation of the Division on Oil and Gas Industry (3 people) to carry out the new functions of the ministry concerning pre-investigation, exploration and production of hydrocarbons.

The Energy Inspectorate was established to perform energy efficiency control and supervision according to Paragraph 82 of the “Energy Law”. 57 160 LVL are envisaged in the national budget of this year for the purpose of establishment of the Inspectorate.

The Radiation Safety Centre will be operational in July and will bear responsibility for supervision and control in the radiation safety and nuclear safety field in accordance with the law “On Radiation Safety and Nuclear Safety”. The Centre is under the supervision of the Ministry of Environmental Protection and Regional Development and has 31 employees.

The Consumer Rights Protection Centre bears responsibility for enforcement of the legislation in the field of energy efficiency labelling, in accordance with the respective Regulations of the Cabinet.

PHARE Cutch-up project “Energy sector restructuring” will be launched by September 2001 to facilitate implementation of the “Concept for Gas market liberalisation” and further liberalisation of electricity market.

**15. Industrial policy**

Latvia’s industrial policy is generally in line with the principles of EC industrial policy – market based, stable and predictable. The negotiation chapter “Industrial policy” was provisionally closed in November 2000.

In 2000, 14.5% of Latvia’s GDP was generated by industry. The volume of manufacturing output in the first quarter of 2001 was 110.2%, compared to the first quarter in 2000. An increase in production output has been observed in the textile industry, wood processing, electrotechnics, electronics and metalworking. In 2000, the manufacturing sector attracted 21% of the total FDI stock. Exports to the EU constituted 65.2% of total exports in the 1st quarter of 2001, an increase in the 1st quarter of 2001 compared to the respective period of the previous year was observed in exports to the EU of items with higher added value – products of chemical industries and allied industries (115%), transport vehicles (26%), machinery, mechanical appliances and electrical equipment (12%) and miscellaneous manufactured goods (8%).

Active mass privatisation has been successfully completed in Latvia. As a result of implementing the privatisation programme, in 2000 the private sector accounted for 67% of the GDP, and 71% of employed persons were employed in the private sector. In manufacturing 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 the remaining large state owned enterprises. This year the Latvian Government has started the liquidation process of the Latvian Privatisation Agency (see also chapter Economic criteria).

On 20 March 2001, the Government accepted the “Industrial development guidelines of Latvia”. The general objective of the guidelines is to define medium term priorities of national economic policy. The two priority directions of industrial policy are creation of a favourable environment for industrial development and competitive industrial sectors. The in-depth analysis carried out in the process of development of the guidelines shows that Latvia has good prospects for development of high-tech branches such as information technologies, specific branches of chemistry and pharmacy, sub-sectors of material technologies, biotechnology, wood chemistry, and composite materials, where a certain background and pool of experts already exist. Industrial development guidelines will be taken into consideration in the course of elaboration of industry-related strategic documents – the National Programme for the Development of SME’s, the National Innovation Programme, and the National Development Plan.

To support a faster transfer from labour intensive industries to knowledge-based and higher value-added, the Government accepted the “National Innovation Concept” on 27 February 2001. The National Innovation Programme and Action Plan are currently being developed.

Pro-active measures to attract new investments, both foreign and domestic, are being taken. In order to implement the Concept “On Enhancement of Investment Projects Significant for the National Economy of Latvia”, amendments to the law “On Enterprise Income Tax” came into force on 1 January 2001, providing tax credit up to 40% of the amount more than 10 million LVL of investments in production equipment, technology, and real estate for a 3 year period. A draft regulation “On the Order of preparation and submission of application for investment projects to receive the status of the supported investment project” has been prepared. In order to improve the business environment, profound dialogue has been established over the last two years between the Government of Latvia and the business community represented by Foreign Investors Council in Latvia (FICIL). The dialogue comprises regular meetings, elaboration, monitoring and updating of an Action Plan to improve the business environment. As result of the Action Plan, Latvia has started to introduce the electronic customs declaration system, procedures for obtaining work permits and construction permits have been simplified, and enterprise and taxpayers registration systems have been unified.

**Administrative capacity.** The central body responsible for the formulation and co-ordination of industrial policy in Latvia is the Ministry of Economy. The line ministries that are responsible for managing specific industrial branches take part in the policy-making process. After a functional audit the structure of the Ministry of Economy was optimised at the end of 2000, thus strengthening its role as a key player in the policy-making process. A new division of Industrial Development within the Industry Department was established to foster innovative activities. The Ministry of Economy continues a successful dialogue with sectoral Expert Councils and associations of different industrial branches.

On 18 April 2001, the twinning project on “Law Approximation (Industrial policy)” was commenced. The overall objective of the project’s section on “Industrial policy” is to enhance the law approximation process in Latvia and, to develop appropriate structures and institutions for effective implementation and enforcement of the acquis in industrial policy.

Latvia is the only candidate country using a cluster approach to business development. The Phare project “Support to Industrial Cluster Restructuring” was successfully commenced in October 2000 with the aim to promote the overall economic performance of Latvian industry by inducing cluster development on the basis of strategic reorientation of existing industries. Four clusters have been
selected for further implementation of the project – Information Systems, Forestry, Fibre Optics, Engineering and Composite Materials.

In co-operation with Danish Agency for Trade and Industry environmental management systems were successfully introduced in pharmacy and food sectors at the beginning of 2001. There are projects running in the metal processing and chemistry sectors as well.

16. Small and medium-sized enterprises

Latvia’s policy towards Small and Medium-sized Enterprises (SME's) follows the EU approach and the basic infrastructure to implement SME policy is in place. Since November 2000, Latvia is taking part in the 3rd Multi-Annual Programme for SME’s and has already expressed interest in participating in the new Multi-Annual Programme for Enterprise and Entrepreneurship (2001-2005). The negotiation chapter “Small and medium-sized enterprise” was provisionally closed.

SMEs account for 99% of enterprises registered in Latvia. In January 2001, 39 468 SMEs were operating in Latvia. Approximately 78% of all enterprises are micro enterprises (less than 9 persons employed), 18% – small enterprises (10-49 persons employed) and 4% medium sized enterprises (50-249 persons employed). Approximately 70% of the economically active population are employed in SMEs. In 2000, about 65% of Latvia’s GDP was generated by SMEs. The SMEs dominate in the major export industries.

The policy framework document of SME development in Latvia is the National Programme for the Development of SMEs for 1997-2001. Under this programme a number of activities have been accomplished in the last years – a) Latvia’s Guarantee Agency and Regional Fund were established, b) state supported consultations and training programme were implemented, c) “soft” credit support schemes were created for start-ups, and d) a network of Business Advisory Service Centres has been established. The co-ordination board of the National Programme has evaluated the results of the previous programme and defined objectives for the National programme 2002-2006. The revised National Programme will cover all the necessary support activities to improve the state support system for SMEs, including the areas of access to financial resources, access to appropriate information, and education of entrepreneurs.

Reform of the state support system for enterprises is ongoing. In mid-2000 the Government approved a Concept on Public Support to Entrepreneurship, providing for optimisation of state support funds. A practical model for state support of SMEs is currently being elaborated. This model envisages closer integration of the financial sector in the state support system for SMEs. Proposals on reform of the state support institutions i.e. Latvia’s Guarantee Agency and Latvia’s Exportcredit will also be submitted to the Government.

The main progress achieved last year was allocation of 5.2 million EUR under the State budget 2000 for the implementation of the loan schemes for start-ups and SMEs through the Latvian Mortgage and Land Bank (LMLB). In 2000, 163 projects were financed within this programme, ensuring creation of approximately 450 new workplaces. The LMLB has attracted additional financial resources to the amount of 10 million EUR for implementation of loan schemes for SMEs in co-operation with German bank “Kreditanstalt für Wiederaufbau”.

The business environment in Latvia has been constantly improved, notably by the continued dialogue between Government and business associations and through the implementation of the Action Plan to improve the business environment based on the recommendations of the Foreign Investors’ Council in Latvia. As result of the Action Plan, Latvia has begun to introduce an electronic customs declaration system, procedures for obtaining work permits and construction permits have been simplified, and enterprise and taxpayers registration systems have been unified. It is worth mentioning that Latvia is the only country among the CEEC’s to have developed a concrete Action Plan to improve the business environment.
The adoption of the “Commercial Law”, which will come into force in January 2002, improves the business environment by introducing greater clarity and simplification in the sphere of business activities in Latvia and reducing the number of forms of enterprises (from 17 to 5) (see also chapter 5. Company law).

To promote the development of management skills, an economical educational programme has been carried out in co-operation between Regional fund and local municipalities.

The SME definition provided in the law “On Control of the State and Local Government Aid to Entrepreneurial Activity” and in the National Programme for the Development of SMEs is largely in line with the recommendations of the European Commission, including the notion of the independence criterion (the company is regarded as an SME if less than 25% of company capital shares belong to another enterprise or enterprises). By the end of 2001 it is planned to amend the definition of SMEs provided by the law “On Control of the State and Local Government Aid to Entrepreneurial Activity” by separating micro enterprises.

17. Science and research

The negotiation chapter “Science and research” is provisionally closed.

The State Programme on Scientific and Academic Personnel Renewal has been submitted to the Government. The Programme foresees an increased number of doctoral students, fellowships for doctoral studies in Latvia and abroad, special return-grants for Latvian researchers currently working abroad and elaboration of the State Emeritus Scientists Programme. The Programme forecasts extra financing to the amount of 2 980 881 LVL in the state budget Science Programme 2001-2004.

The pilot programme Processing of Higher Qualification Information Technology Specialists has been elaborated to ensure the necessary number of high-level IT specialists (leading researchers, professors).

At the end of 2000, the Contract (703 000 EUR) between the EC and University of Latvia on implementation of the project “Excellence Centre of Advanced Material Research and Technology at the Institute of Solid State Physics, University of Latvia” was signed for the period 2001-2003.

The scientific society has been fully associated to the EC 5th Framework Programme for RTD. 30 projects were approved in the year 2000. The funding of the projects is approximately 3 000 000 EUR.

Latvia is a member of the EC COST Programme. Participation is ensured in 12 COST Technical committees. Scientists participate in 24 activities in different research areas. In the framework of the EUREKA programme, scientists participate in 4 ongoing projects and have expressed the intention to take part in 5 additional projects. 2 project proposals were approved for funding in the EC INTAS Programme.

A National Contact Point for the EC 5th Framework Programme, with qualified staff ensuring the association to the aforementioned programmes, is functioning.

To promote links between research and development policy and industrial and SME policy, two national research centres – the Centre of Material Science and Centre of Wood Sciences and Technologies were established in the year 2000.

18. Education and training

The negotiation chapter “Education and training” is provisionally closed.

Legislation in the sector of education and training is in line with the acquis and institutions have been strengthened.
The draft Development Programme of Education for the Years 2001-2005 is being finalised. The Programme sets out four main development areas: increasing both quality of education and effective use of resources, as well as ensuring access to education and institutional development.

The draft National Programme of Development of Higher Education and Higher Schools until 2010 has been submitted to the Government. The Programme foresees state financial support for higher education establishments, renewal of academic staff in universities and encouragement towards higher educational professional and academic degrees.

In December 2000, amendments to the law “On Institutions of Higher Education” in accordance with the Declaration of Bologna came into force. The Amendments implement higher education professional degrees (Bachelor, Master degrees) and foresee the possibility to proceed from academic to professional study programmes. The elaboration and implementation of qualitative and comparable study programmes are under way.

As part of educator’s remuneration reforms, additional financial resources have been allocated to the amount of 2.9 million LVL for the year 2001. A salary increase will also be ensured in the year 2002.

As a result of vocational education and training (VET) system reform, national standards of vocational training, vocational secondary education and the first level higher professional education have been adopted. 12 occupational standards have been adopted and 6 are being elaborated. To implement a unified state examination system in VET, provisions for the centralized qualification examinations and state final examinations in vocational education institutions have been elaborated. The network of study and examination centres has been improved. Recommendations for the organization of public procurement for implementation of continuing vocational training programmes, as well unified requirements for the development and implementation of adult continuous vocational training programmes have been elaborated.

To implement the first level professional higher education, the legislative basis for establishment of colleges and implementation of relevant study programmes has been developed. Work has continued on harmonising first level professional higher education programmes and college accreditation provisions with the requirements of higher education institutions.

In the framework of the World Bank financed project Development of Educational System, school renovations are continuing. Reconstruction projects in 25 educational institutions have been finished and 10 projects have been commenced.

Latvia is continuing to participate in the EC programmes Socrates, Leonardo da Vinci and Youth. Funds for participation in the EC programmes for the coming years have been ensured.

Relevant national structures to implement EC programmes are in place and are functioning. The National Resource Centre for Vocational Guidance (4 employees) supporting trans-national mobility and a European dimension in education and training has been established within the Agency for Vocational Education Development Programmes.

Regarding VET, in the Tripartite Cooperation Council, the Sub-council for Cooperation in Vocational Education and Employment was established in July 2000. The Sub-council deals with state development plans, concepts and normative acts concerning vocational education, human resource development and employment issues. In order to promote co-operation in decision-making regarding national policy and planning and implementation of vocational education strategy among state institutions and local governments, employers and trade unions, public consultative and co-ordinating institution – the Council for Co-operation in Vocational Education was established in September 2000. In the Council also vocational education establishments are represented.
19. Telecommunications and information technologies

The Latvian Government has committed itself to liberalising the telecommunications market from 1 January 2003. With adoption of the law “On Telecommunications”, the legal basis for full implementation of the EU Directives in the field of telecommunications will be provided. The legislation in the postal sector is almost in line with the acquis. Rigorous enforcement of the law “On Regulators of Public Utilities” will provide for separation of operational from regulatory functions and promote development of economically grounded competition in the field of telecommunications and the postal sector. A policy framework is in place and budgetary support has been provided in the IT sector.

The draft law “On Telecommunications” was adopted by the Parliament on the second reading in May 2001. It incorporates a number of requirements set by the EU directives on the interconnection, authorization and licensing, telecommunications network numberings, price regulation and universal service laws. According to the transitional provisions of the draft law, abolishment of the exclusive rights granted to Lattelekom Ltd. is envisaged starting from 1 January 2003. To provide for full compliance with the acquis, the necessary amendments according to the recommendations of the European Commission DG Information Society will be made in the 3rd reading. Adoption of the law is envisaged in the autumn session of the Saeima.

Over the past year the telecommunications sector has progressed quite remarkably, both in terms of quantity and quality. The number of main lines in the fixed network reached 734 693 in the first half of January 2001 (compared to 732 000 a year ago) and the waiting list is approximately 19 000. At present, there are approximately 401 000 mobile phone subscribers in the GSM and NMT systems.

It is planned to issue a third mobile phone license in 2001, giving the right to operate the UMTS (third generation) and GSM 1 800 mobile services starting from 2002. The procedure for organisation of the bid to operate the third mobile phone licence in the UMTS standards and GSM 1 800 standards was adopted by the Government in January 2001. A Commission was established by the Government in February 2001 with responsibility for organisation of the bid.

The re-balancing process of Telecommunication basic tariffs began in September 1996 with a Telecommunications Tariff Council (TTC) decision to reduce international tariffs by 35%. Domestic call tariffs have been reduced by 24-26% and the subscriber’s fee has increased by 49%. Further TTC decisions have maintained the trend to increase the subscriber’s fee for residents and to reduce international call tariffs, approximating service tariffs to actual costs. At present, the TTC together with Lattelekom Ltd is preparing a regulation mechanism of Telecommunications basic tariffs providing for further tariff re-balancing.

The legislation in the postal sector is almost in line with the acquis. The necessary amendments in the “Postal Law” were adopted in December 2000 with respect to the reserved services. All necessary measures for separation of accounts will be introduced by the date of accession, on the basis of an administrative act issued by Latvijas Pasts. The quality of the service measurement system will be implemented through administrative acts issued by the Ministry of Transport (for international postal services) and Latvijas Pasts (for domestic postal services). The quality of the service measurement system for domestic postal services (letter correspondence) will be introduced in the course of the year 2002, and full compliance (comprising international services) with the standards set in Directive 97/67/EC is planned by the date of Latvia’s accession to the EU.

As regards information technologies, the Government has accepted “The baseline for the socio-economic concept e-Latvia” and the respective Action Plan. The Action Plan generally fits the eEurope+ Action Plan drafted by Central and Eastern European countries. “The Concept of the e-Government” is being elaborated with the aim to increase the quality of public services through the use of information technologies. “The Concept on e-commerce” was accepted by the Government in March 2001. The Action Plan drafted in line with the Concept envisages elaboration of all necessary
legislation, including that necessary for transposition of the Directive 2000/31/EC. Concepts on introduction of ID smart cards and E-Procurement are also being elaborated.

The draft law “On State Information Systems” is under consideration in the Government. The draft law provides a legal framework for operation of state information systems and co-operation between involved units.


19 620 Latvian Internet hosts were registered in January 2001 by the RIPE Network Co-ordination Centre, in comparison with 18 500 a year ago. The total amount of active Internet users reached approximately 150 000 and during 2000 the number of users increased by approximately 50%.

In the framework of the multi-annual Latvian Education Informatization System Project, financed within the State Investment Programme, the goal of connecting all secondary schools to the Internet was achieved in 2000. Within the Integrated Library Information System Project (LATLIBNET), integration of regional libraries in the network was started in 2000. Under the state investment project of the Unified Information System of Local Authorities, ten IT pilot projects were introduced in local municipalities in 2000.

The project of creating public access points to the Internet in less developed regions of Latvia was started in 1999 with the support of the Soros Foundation Latvia. Approximately 30 free access points were established across the country by the end of 2000.

Administrative capacity. The law “On Regulators of Public Utilities” (in force from June, 2001) envisages establishment of a unified State public service regulation procedure and establishes the legal framework for providing such services. The Public Services Regulatory Commission will be operational from 1 September 2001 and will overtake the regulatory functions in the telecommunications sector from the Telecommunications Tariff Council and the Telecommunications Department of the Ministry of Transport by 1 October 2001. The new regulatory environment will ensure the independence of the regulatory body from telecommunications operators in compliance with EU requirements. The Independent Regulatory Body will also be responsible for regulation of tariffs in the postal services.

Along with the functions provisioned in the law “On Regulators of Public Utilities”, the law “On Telecommunications” will define responsibility of the Commission specifically in the field of telecommunications.

According to the Implementation Plan, which was elaborated to ensure establishment of the Regulatory Body, it is envisaged to create a Telecommunications and Postal Department, consisting of 12 persons, as the Regulator’s executive institution for telecommunications sector. The department will consist of three divisions- Telecommunications licensing division, Postal licensing division and Division for Control of technical normative documents.

The Data protection Inspectorate responsible for supervision of the enforcement of the law “On Protection of Personal Data” according to the EU Directive 95/46/EC is established and operating since January 2001.

20. Culture and Audio-visual policy

Legislation in audiovisual field is in line with the acquis. Most of the amendments aligning Latvia’s “Radio and Television Law” with the TWF Directive were introduced in the version already in force since 17 November 1999. The last amendments adopted by the Parliament on 15 February 2001 a)
introduce detailed jurisdiction criteria, b) establish rules on broadcasting of major events, and c) define broadcasting, broadcasters, independent producer, re-transmission, sponsorship, European audiovisual works more explicitly. This allowed Latvia to close the negotiation chapter “Culture and audiovisual policy” in March 2001.

The administrative and implementation structures are in place. The independent regulatory body, the National Radio and Television Council (‘Council’), provides supervision of the implementation of the Radio and Television Law. Monitoring and sanctioning powers of the Council are provided in the “Radio and Television Law”. According to “Advertising Law”, Council also works as a supervising institution of advertising in the field of electronic mass media – radio and television.

To continue the strengthening of the authority and administrative capability of the Council to implement effective and independent supervision of the Radio and Television Law, in March 2001 the Council submitted to the Parliament amendments to the “Administrative Violations Code”, which would provide the Council a legal basis to review and impose direct administrative fines up to 5 000 LVL for the following administrative violations: infringement of advertising rules; breach of rules on importation, production, circulation and public exhibition of erotic and pornographic materials; infringement of mass media operation rules; and non-provision of television broadcasts and publicly demonstrated films with dubbing or subtitles in the official language.

The Council consists of 9 Members appointed by the Saeima and a Secretariat consisting of 13 Persons. To enhance the functions of the Council it is planned that the Secretariat staff could be increased by adding 2 posts in 2002.

Latvia plans to join the MEDIA Plus programme from the year 2002. The preparations have already commenced. The Media Desk will be operational from the date of joining the Media Plus programme, although it is foreseen to set it up 2 or 3 months before official participation in the MEDIA Plus programme in order to prepare some projects before responding to the first call for proposals. Participation in the MEDIA Plus programme is regarded as a priority both in the National Programme for integration in the EU, as well as in the National programme “Culture”.

Latvia is actively preparing for participation in the EC Programme “Culture 2000”. In June 2000, an application letter was submitted to the European Commission. An agreement has been reached between the European Commission and Latvia on the participation fee – 110 000 EUR per year. The Association Council decision for Latvia’s participation into the Programme has not yet been signed.

The projects covering different cultural fields have been prepared and submitted to the European Commission. The project on the “European Cultural Month in Riga” in August-September 2001 was elaborated.

21. Regional policy and co-ordination of structural instruments

Work has been continuing to establish a clear legal and institutional framework with a view to future participation in EU structural policy. The draft “Law on Regional Development”, presently under consideration in the Government was elaborated to provide the legal basis and institutional framework for regional policy development and implementation. Programming capacities are strengthened through further elaboration of the National Development Plan and programming of Phare investments in Economic and Social Cohesion. The decision has been taken to unify resources from a number of institutions presently dealing with issues of regional policy and includes them in the Secretariat of the Minister for Special Assignment for Cooperation with International Financial Agencies, with the final aim of establishing a qualitatively new institution. This will ensure concentration of resources and streamlining of functions at the central administration level.

The Government has decided to treat the whole territory of the country as corresponding to the single NUTS II level region. The 5 planning regions in Latvia generally correspond to NUTS III classification. The borders of five planning regions will be clarified as transitional provisions of the
The reform of local and regional government taking place in Latvia in accordance with the law “On Administrative Territorial Reform”, adopted in 1998. Since 11 new local authorities have been created so far on the basis of existing 27 local governments, the Government has submitted for public consideration two alternative proposals with the aim to speed up administrative territorial reform. According to the first proposal, reform should be implemented during 2002, creating 102 new local governments instead of the existing 552. An alternative proposal suggests creation of 33 local governments on the basis of the existing territorial division into 26 districts (районы) and 7 largest cities. The reform aims at creation of economically viable local governments with increased administrative capacity, thereby making savings in the budgetary resources.

**Programming capacities are being developed** through the continued elaboration of the National Development Plan (NDP), to be submitted to the Government by September 2001. The NDP Strategic Memorandum was accepted in Government in February 2001. The Memorandum sets out the general guidelines for development of further strategy by identifying the priorities of development of the Latvian economy and society, accompanied by the directions for action to be taken to achieve these priority goals. These priorities will be elaborated further in the final version of the NDP, including preparation of the Operational part of the plan for implementation of the priorities.

To secure better programming of the NDP, **the institutional structure** in charge of preparation of the document has been altered. The NDP Steering group and NDP Unit have been expanded to include representatives of five planning regions according to the principle of partnership. The NDP Expert Group was established in May 2001, involving 15 professionals from non-governmental institutions. The role of the NDP Expert Group is to evaluate information prepared by the NDP Unit and to provide feedback on relevant development forecasts in different sectors for the medium-term. The Expert Group is already involved in the NDP elaboration through development of methodological guidelines for further elaboration of the document.

The Government intends to proceed with elaboration of the NDP according to a two-track approach. The core of three experts (outside public administration) could be attracted for practical preparation of the document. At the same time, ministries and planning regions will be involved in the NDP elaboration through operation of the NDP Steering Group and the NDP Unit. The Government intends to mobilise the high level EU expertise to foster the NDP programming.

A number of studies was carried out within the Phare “Special Programme for Preparation for work with the Structural Funds” (LE9805.03), providing an analytical tool for further development of the document. These include studies on the Forestry and Forest Industry Component, Macroeconomic Paper on Progress of Latvian Development, Interlinked macroeconomic and financial developments Development of Financial Services Macroeconomic outlook for Latvia in 2000 HERMIN model for Latvia.

Programming of Phare investments in Economic and Social Cohesion (ESC) are preparing the Structural Funds Objective 1 type activities in Latvia. In comparison with the Phare 2000 programme, when target regions for ESC support were selected, in Phare 2001 the whole territory of the country will be eligible for support from Phare ESC. Phare ESC is aimed at supporting targeted national policy priorities set in the NDP Strategic memorandum, by addressing economic and social challenges in Latvia through support for the development of complex knowledge bases at the business, industrial cluster, education and national economy levels.

Starting from 2000, the planned financial resources of the EU assistance programmes (in future also the EU Structural Funds) are included in the revenue line of the State budget and in the expenditure lines of the respective programmes of ministries and other central government bodies. **The NDP will be linked to the medium-term budget planning** starting from year 2002 for the budget year 2003.
The first step in this direction is “The Methodology Baseline for the Medium Term Budget planning” adopted by the Government in April 2001.

A package of new legislation is being elaborated with a view to defining the basic principles and strengthening the institutional framework for regional development. The draft “Law on Regional Development” defines the system of regional development in the country, making possible the targeted planning of regional development and implementation of support measures for regional development to ensure balanced and sustainable development. The Law will establish the procedure for the management, implementation, funding, monitoring and evaluation of regional development. Since it is planned that the “Law on Regional Development” will replace the existing law “On Assisted Regions”, it includes provisions on the status of the specially assisted territories.

The draft of “Law on Spatial Planning” which will substitute the existing “Law on Territorial Development Planning” sets the framework for spatial planning and involvement of institutions in territorial planning, from national to local level. It clarifies the hierarchy of spatial planning documents and provides for clear separation between territorial planning and development planning which comes under the competence of the draft “Law on Regional Development”.

Administrative capacity. The Government in its Decision of 5 December 2000 acknowledged the need to establish an effective institution with an adequate capacity and mandate to deal with planning, programming and management of cohesion policy in the country and to ensure co-ordination among sectors, as well as between national and regional levels. The decision was taken to reallocate resources from a number of institutions presently dealing with issues of regional policy (the Department of Regional Development of the Ministry of Environmental Protection and Regional Development, the Division of Regional Structural Policy of the Department of Coordination of Economic Policy Programmes of the Ministry of Economy, the Regional Fund of the Ministry of Economy and the non-profit organisation State Limited Liability Company “Regional Development”) and to include them in the Secretariat of the Minister for Special Assignment for Cooperation with International Financial Agencies with the final aim of establishing a qualitatively new institution. It will serve as a basis for the developing of appropriate functions of the Managing Authority in the sense of the Structural Funds.

In line with the decision, the Ministry of Finance will be responsible for co-ordination of the national budgetary policy with the planning of the EU Structural Funds intervention.

Following the Government Decision of 5 December 2000, the Draft “Law on Regional Development” sets the institutional framework for regional policy. The draft law provides for creation of the Ministry of Regional Development and Planning as a key institution in charge of co-ordination and management of regional policy. The draft law sets the mechanisms for co-ordination of regional policy across sectors and involvement of five planning regions in regional development. The draft law defines the role of planning regions in regional development with due regard to the principle of partnership.

The capacity of the central institution will be strengthened with support of the Phare 2000 French (DATAR) twinning project “Development of Institutional and Administrative Capacity for Regional Development”. The Human Resources Development Plan and timetable for the new institution and training plan for planning regions will be agreed and implemented.

22. Environment

Noticeable progress has been achieved in 2000 and the first half of 2001 in almost all environmental sectors, especially in nature protection, nuclear safety, air quality protection, waste management, reduction of industrial pollution and the horizontal sector. Work has been accelerated in nature
protection and radiation protection legislation. Priority is being given to the strengthening of administrative capacity both at national and regional levels.

Implementation programmes, including preliminary cost assessments for all environmental sectors, have been prepared. These are in line with the ongoing investment programmes.

**Horizontal legislation**: Progress has been achieved in the horizontal sector. The amendments to the law “On Environmental Protection” transposing Directive 90/313/EEC came into force in July 2000. The Law “On Pollution” transposing directive 96/61/EC will come into force in July 2001. The law a) requires public consultation before IPPC permits and permits for waste incineration are issued, b) sets basic principles for pollution prevention and control, and c) determines emission limit values and environmental quality standards in the water sector. All environmental permits and applications for permits will be available for the public.

Amendments to the law “On Environmental Impact Assessment” transposing remaining requirements regarding transboundary issues of environmental impact assessment (EIA) were adopted in May 2001. The EIA system is already fully operational.

Agreement on participation in the European Environment Agency was ratified in May 2001.

From the year 2001, participation in the LIFE programme has been ensured. 7 projects have been submitted to the LIFE Nature and 3 – to LIFE Environment sub-programmes. The national contact point for evaluation and forwarding of applications is the Investment Department of the Ministry of Environmental Protection and Regional Development.

**Administrative capacity**: By merging the Latvian Environmental Data Centre and the Latvian Environmental Consulting and Monitoring Centre, the Latvian Environment Agency – responsible for access to environmental information as well as reporting – has been established. The Agency operates as the National Focal Point of the European Environment Agency within the EIONET and United Nations Environment Programme information system INFOTERRA, and as a national co-ordinator of the Helsinki Convention. The Agency cooperates with a number of institutions (data and information stakeholders) to establish and develop a unified environmental information system.

As regards the Environmental Impact Assessment, institutional structures are functioning and actions have been taken to build capacity. The State EIA Bureau (1999) performs the duties arising from EIA legislation. The administrative capacity is sufficient and has been regularly improved by participation in study tours, training, seminars and conferences in Latvia and abroad. Due to the growing number of projects, the capacity will be increased. Since 1999 the permanent staff has been increased from 13 to 16 employees. It is planned that the number of employees will reach 22 by January 2002. The development of EIA guidelines is under way and a handbook will be published by the end of 2001. The Bureau has, to date, evaluated 5 Environmental Impact Statements (3 related to landfills, 1 to disposal site for polluted harbour mud and 1 to hydroelectric power plant). By April 2001, 16 EIA procedures were commenced for various activities, including landfills (5), roads (2), thermoelectrostations (2), incineration installation (1), installation for disposal of hazardous waste (1), river-crossing (1), pulp and paper plant (1), hydroelectric power plant (1), high voltage electrical power line (1) and well-field (1).

**Air Protection**: Good progress has been achieved in the sector. The main attention was devoted to implementation of legislation. Comprehensive guidelines for the implementation of legislation on combustion plants have been adopted. In the framework of the Latvian-Danish project “On Assistance to Latvia on Implementation of the EU Ambient Air Quality Directive” (started in June 2001) capacity for air quality assessment and management will be strengthened. The Project foresees the creation of a national air quality monitoring network capacity, as well development of capacity for providing information on air quality to the general public, decision makers and the EU. The Project also supports continued transposition of the EU air quality regulatory framework.
The monitoring of benzene and carbon monoxide in the ambient air is already nearly in compliance with the Directive. The Regulation “On Conformity Assessment of Petrol and Diesel Fuel” will come into force in January 2002. For full compliance, Directive 98/70/EC, amended by Directive 93/12/EEC, will be transposed by amendments to the Regulation (currently under elaboration). The Regulation sets out requirements for a) indicators such as lead content, b) distillation and density indicators c) content of benzene and d) determining the amount of hydrocarbon and oxygen containing compounds in fuel.

**Administrative capacity:** The institutions for the implementation of air quality requirements are in place. The Latvian Hydrometeorological Agency (LHA) is the competent authority for air quality assessment. With the recently modernised air quality monitoring system, continuous air quality measurements are carried out. According to the Air quality directive, the LHA has a list of institutions, which receive information free of charge in cases defined in the directive. The LHA and Latvian Environment Agency are responsible for approval of the measuring devices (methods, equipment, networks, laboritories) and for analysis of assessment methods. Both agencies ensures accuracy of measurement by measuring devices and checking the maintenance of such accuracy by those devices, in particular by internal quality controls carried out in accordance, inter alia, with the requirements of European quality assurance standards. Both institutions are involved in data handling and storage. The LHA carries out consultations with neighbouring countries when necessary.

**Waste Management:** The new “Waste Management Law” transposing basic requirements of Directives 75/442/EEC and 91/689/EEC came into force in March 2001. The regulations issued previously under the laws “On Municipal Waste” and “On Hazardous Waste” will be gradually replaced by the new legislation. The Regulations “On Types of Waste Recovery and Disposal” (May 2001) and “On Waste Classification and Characteristics Which Make Waste Hazardous” (June 2001) were adopted. At present, a number of Regulations have been prepared.

The draft “Packaging Law” transposing Directive 94/62/EC was submitted to the Government in April 2001 and is expected to be adopted by the end of 2001.

Based on the new law, a Waste Management Plan fully in line with the provisions of the directive is under elaboration. The waste permitting system will be improved by the end of 2001. The main improvements of the waste management system will include the issuing of permits for waste collection, storage and transfer. As from January 2003, the system of waste statistics will be in full compliance with EU requirements.

In April 2001, the first project in the solid waste sector, co-financed by EU ISPA fund, was approved. The total costs of the Ventspils region solid waste management project are 6.19 million EUR, including 3.033 million EUR financing from the ISPA fund. In May 2001, an application for ISPA financing for the Liepāja region solid waste management project was submitted. Preparation of new projects is ongoing.

An EIA project for 3 possible sites for future landfill for hazardous waste is ongoing. It is expected that the project will be finished at the end of 2001. After the completion of EIA and site selection, construction of the landfill will be commenced. The landfill is expected to be in operation during 2004.

An application for technical assistance from the ISPA fund has been submitted to the EC. The technical assistance project foresees a) cost-benefit analysis, b) detailed design of the hazardous waste landfill, c) development of tender documentation for construction of the hazardous waste landfill, supervision of construction works and supply of equipment, collection, transportation and management of hazardous waste landfill, and d) a Feasibility Study on regional hazardous waste

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4 Cabinet of Ministers Regulations “On Issuing Prolonging and Annulling of Permits for Waste Management, and on Requirements in the Waste Management Permits”; “On Requirements for the Incineration of Waste and for the Operation of Waste Incineration Plants”; and “On Requirements for Establishing of Landfills, for Management and Closure and After – Care of Landfills and Dumpsites”
transfer stations that could be combined with sanitary solid waste landfills and other infrastructure objects. The total costs of the project are 0.56 million EUR.

**Administrative capacity:** An institutional system to implement legislation in the area of waste management is in place. Under the Ministry of Environmental Protection and Regional Development, the Council of Packaging Management was established in December 2000. The Council evaluates programmes submitted by enterprises concerning collection of packaging waste and co--operates with NGOs working in the field of packaging management. Experts from the Ministries of Finance, Economy, Environmental Protection and Regional Development, the Environmental Protection Fund, Packaging Association of Latvia and Standardization Technical Committee “Packaging” are represented on the Council, thereby facilitating voluntary packaging waste management.

Green Dot Latvia, an organization for voluntary packaging waste management, was established in January 2000 and has started to operate in January 2001. Its aim is to implement the Directive requirements within its member companies. At present, the 8 largest Latvian food producers have become members of Green Dot Latvia, and almost 10% of total packaging is under their supervision. Since 2000 Green Dot Latvia is a member of Packaging Recovery Organisation Europe.

**Water sector:** The newly adopted law “On Pollution” sets basic principles in the water sector for pollution prevention and control, and determines emission limit values and environmental quality standards. Based on the new law, Regulations\(^5\) transposing the dangerous substances directive and its daughter directives, the urban wastewater directive and the groundwater directive, will be adopted this year. Both regulations will ensure full transposition of the old EU water directives.

Work is continuing on the law “On Water Management” for the transposition of the Water framework directive. Regulations transposing the Nitrates directive have been prepared. With regard to the implementation of the Nitrates directive, LEA, REB and State Geological Survey carry out a sampling program. A number of activities have been carried out: a) data collection and evaluation, b) identification of changes in the existing and planned monitoring system required for collecting the information necessary for designation of vulnerable zones, and c) an outline of proposal for amendments to the monitoring programme to fulfil the requirements of the EU Nitrates Directive. The co-ordination council for action programmes in vulnerable zones will be established after the adoption of Regulation “On the Protection of Waters and Soil Against Pollution Caused by Nitrates from Agricultural Sources” by January 2002, which also sets the functions of the council.

At present, projects for improvement of drinking water quality have been completed in 10 towns, where the process of iron removal ensures full compliance with EU requirements for drinking water supplied into the centralized water supply system. Since December 2000, a project for construction of an iron removal plant in Daugavpils (the 2\(^{nd}\) largest city in Latvia), Liepāja (3\(^{rd}\) largest), Madona and Dobele has been completed.

For improvement of the water supply and wastewater treatment services in cities, preparation of projects for ISPA financing is ongoing. Tender documentation for approved ISPA projects in Riga, Ventspils and Jelgava will be ready this year. For the ISPA 2001 projects, the application for technical assistance for preparation of tender documentation has been submitted to the EC. Financing will support the implementation of water projects in 19 towns of Eastern Latvia, river basins and Rēzekne city. The technical assistance financing for the project is 3 650 million EUR.

Work on preparation of the Water Framework Law setting up the institutional framework to operate on a river basin basis is ongoing. Completely new institutions are not foreseen. Functions will be delegated to the existing Regional Environmental Boards and other institutions.

\(^5\) The Cabinet of Ministers Regulations “On Waste Water Emission Limit Values” and “On Surface Water and Ground Water Quality”
In 2001, the LEA plans to analyse water-monitoring programmes and assess their compliance with EU water directives requirements. As a result, LEA will develop a new programme in the following years.

**Nature Protection:** Substantial progress has been achieved in the sector. Based on the law “On Protection of Species and Habitats”, a number of Regulations has been adopted. Furthermore, specific Regulations for concrete protected areas, as well as comprehensive Regulations “On Protected Dendrological Objects and On Geological and Geomorphological Nature Monuments”, have been adopted. A Regulation fully transposing Directive 1999/22/EC was adopted in May 2001.

**Administrative capacity:** After the establishment of the Nature Protection Department within the Ministry of Environmental Protection and Regional Development, the administrative capacity in this sector increased and good progress has been achieved.

**Industrial Pollution:** The law “On Pollution”, almost fully transposing the IPPC directive, will enter into force in July 2001. The remaining issues are included in 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”. The Regulation was prepared and submitted to the Government in June 2001. All industrial activities mentioned in the Law will be obliged to receive one integrated permit issued by Regional Environmental Boards. The Integrated permit system will be introduced in July 2001 for new installations and substantial changes in existing installations. Permits for all existing installations will be introduced gradually until 2007.

Regulation fully transposing Directive 96/82/EC (Seveso II) will come in force as from July 2001. The Regulation will fully define the institutional structure for implementation of the Directive. A Draft Regulation transposing the new directive 2000/76/EC has been prepared. The Directive will be transposed by the end of 2001.

In the framework of the Latvian-Danish technical assistance project, work with 7 pilot enterprises covering different industrial sectors is ongoing. At the end of the project the enterprises will receive integrated permits.

**Administrative capacity:** The institutional structure has already been established and the directives of the industrial pollution sector will be implemented mainly through the existing institutions. The State Environmental Impact Assessment Bureau has undertaken the responsibilities of a central institution in the industrial pollution field. The Bureau has, to date, evaluated five Environmental Impact Statements. Three of these activities were related to landfills, one to a disposal site for polluted harbour mud and one to a hydroelectric power plant. The Bureau is responsible for appeals and for the BAT information and permits database. Regional Environmental Boards will be responsible for issuing integrated permits, comprising also requirements of all other relevant EU directives, as well as permitting temporary derogation if there is a rehabilitation plan. The installations to which the IPPC directive applies have been identified. The institutional system for the implementation of the IPPC directive is already in place. The Latvian Environmental Agency is responsible for collecting monitoring information, as well as for the pollutant emission register, which will be introduced from 2002.

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

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6 Cabinet of Ministers Regulations “Lists of Specially Protected Species and Specially Protected Species of Limited Use” (2000); “Lists of Specially Protected Habitats” (2000); “On the Establishment, Protection and Management of Micro-reserves” (2001); “On the Order of Issuing Permits for Introduction, Reintroduction and Capturing of Individuals of Non-huntable Species” (2001) and “On Compensation for Damage for Extermination or Impairment of Individuals of Specially Protected Species and Specially Protected Habitats” (2001).

7 Cabinet of Ministers Regulation “Requirements for Keeping Animals in Captivity in Collections of Wild Species and Creation of Collections of Wild Species”

8 The Cabinet of Ministers Regulations “On Procedure for Prevention of Risk of Industrial Accidents and Risk reduction Measures” (June 2001)

9 The Cabinet of Ministers Regulations “On Requirements for Incineration of Waste and for Operation of Waste Incineration Plants”
The competent authorities in the area of EMAS and ecological marketing will be designated upon accession. Latvia has already adopted the ISO 14 001 standard related to EMAS, which is already implemented in several enterprises.


Amendments to the law “On Chemical Substances and Chemical Products”, transposing issues related to EINECS and ELINCS databases, as well as the requirements of the latest EU directives in the area of chemicals, came into force in January 2001.

Administrative capacity: The Monitoring Council of Genetically Modified Organisms was established in September 2000. The Council is a co-ordinating and consultative institution for advice and information with regard to prevention or reduction of the potentially harmful effect on human health and the environment of the contained use, release into the environment, and placing on the market of genetically modified organisms. The Council will inform the public on the use of GMOs.

The necessary institutional system for the implementation of the legislation on chemical substances and chemical products, animal experiments and asbestos is already in place. The Chemical Register Division of the Latvian Environment Agency will accept applications of new chemical substances and will provide risk assessment of new chemical substances, existing substances and biocides.

The State Plant Protection Station has gained experience in exchanging information with other countries about prohibited chemicals or chemicals with a limited area of use (mostly plant protection products). It is envisaged that the responsible institutions will be the Plant Protection Station and Division of Chemicals Register in the Latvian Environment Agency.

According to the Regulations “On Water Use Permit”, the REB, when issuing a Water Use Permit, determines the limit of concentrations for each parameter of pollutant at the specific wastewater discharge point without special regard to asbestos.


Administrative capacity: To rationalize the institutional system, the Radiation Safety Centre has been established and will be operational from July 2001. The Centre will have all the functions of the various institutions currently responsible for radiation protection. During reorganization, additional staff, equipment and resources were allocated. The Centre will have 31 full time employees (including 1 internal auditor). The budget for 2001 has been granted (55 000 EUR) and the budget for 2002 will be approximately 110 000 EUR. The Latvian Environmental Protection Fund granted 110 000 EUR for the establishment of the Centre. Additional financial support has been and will be received also in 2001-2002 from the International Atomic Energy Agency. Supplementary funding is available from the Swedish Nuclear Power Inspectorate for supply of the necessary office equipment. The project under the Danish Emergency Management Agency for strengthening of the Centre’s laboratory has been commenced.

23. Consumers and Health protection

The national legislation on consumer and health protection is virtually in line with the acquis. With the adoption of normative act on labelling of household ovens, household lamps, dishwashers,
refrigerators and freezers, washing machines, tumble driers, Latvia’s legislation has been fully aligned with EU, leaving for implementation only new acquis. For implementation of directives on guarantees and injunction actions (directives 99/44/EC and 98/27/EEC), amendments to the “Consumer rights protection law” have been submitted to the Government. Regulations on novel foodstuffs (regulations 2000/49 and 2000/50) will be implemented by amendments to the Regulation “On labelling of foodstuffs”. Strengthening of administrative structures and development of regional offices of Consumer Protection Centre is one of priorities of the Government. Negotiations on chapter “Consumers and Health protection” were provisionally closed.

For implementation of the acquis, on 23 January 2001 the Government adopted the following normative acts: Regulation “On Labelling of household ovens” (directives 92/75/EEC and 79/531/EEC), Regulation “On Labelling of household lamps” (directives 92/75/EEC and 98/11/EC), Regulation “On Labelling of household dish washers” (directives 92/75/EEC and 97/17/EC), Regulation “On Labelling of household refrigerators and freezers” (directives 92/75/EEC and 94/2/EC), and Regulation “On Labelling of household washing machines, tumble dryers and washing machine and tumble dryer combinations” (directives 92/75/EEC, 95/12/EC, 95/13/EC and 96/60/EC).

A number of activities took place to strengthen the market surveillance system. In December 2000, the Market Surveillance Council was established. The main function of the Council is to promote a uniform approach to market surveillance, co-operation among the market surveillance authorities in respect of unsafe products and services, and to promote distribution of competencies among market surveillance authorities in order to ensure surveillance of all products and eliminate duplication of functions. In order to set equal rules for market surveillance authorities in sampling, the Government adopted regulations ensuring a strict procedure for collecting and analysing samples in order to ensure correct results.

This year additional resources – 49 080 LVL – have been allocated for setting up regional offices of the Consumer Protection Centre in major cities of Latvia, as well as setting up a Division for surveillance of advertising and Legal division for dealing with unfair contract terms. In 2001, staff of the Centre has been increased with 10 new employees (in 2000 the number of employees was 34). Three regional offices of the Consumer Protection Centre will be opened in July 2001 (in Valmiera, Ventspils and Liepāja). In the following years it is planned to increase the number of regional offices to at least 10. The officials of the Consumer Rights Protection centre have been trained in the framework of several technical assistance programmes (Phare PRAQ III, Phare 97 project “Standards” a.o.). Regular training is taking place in the State Administration School. The internal training of inspectors is also taking place.

Last year, the Consumer Rights Protection Centre carried out 2001 control activities, received and handled 609 written complaints and provided 7505 consultations. In the first quarter of 2001, the Centre received 210 complaints, 141 of them in Riga. 42.4% of complaints (89) were handled in 5 days, 20.5 % (43) in 10 days, 11.9% (25) in 15 days, and 5.7% (12) in 20 days.

The non-governmental consumer organisations play an increasing role in consumer protection and promotion of general awareness of consumer rights. The Latvian Consumer Organisations Association (established in 1999) has carried out several different activities in the interests of consumers. At present, the Association consists of 10 regional organisations – eight consumer protection clubs and two landlords' and tenants' associations. The web page of the non-governmental consumer organisations (www.consumer-guide.lv) was created in August 2000. The Club for Protection of Consumer Interests regularly updates the page. This Guide focuses on issues causing concern among consumers and provides online access to useful information in order to educate consumers in the field of their rights and legislation and to provide them with practical advice to reduce the number of complaints and violations of rights. At the end of 2000, the web page was visited more than three thousand times, making it the second most viewed NGO web page in Latvia. Last year, the Club provided assistance, mostly as legal advice on complaints concerning quality of
goods, to 612 consumers (578 in 1999). The specific information tool for consumers on 5 different consumer related issues, Infothek, was prepared with the assistance of the Consumer Rights Protection Centre and is now available in all non-governmental clubs, as well as other locations.

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

Data Protection. “Personal Data Protection Law” (in force since 20 April 2000) implements the Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

A data protection supervisory authority, the Data State Inspection, began functioning in January 2001. Currently it has 10 employees and it’s budget for the year 2001 is 100 182 LVL. It is planned to increase the budget up to 600 000 LVL in the year 2002 and to double the number of employees. In order to further strengthen the independence of the Inspection, the amendments to the legislation are envisaged.

In April 2001 Latvia ratified the 1981 Convention of the Council of Europe on the protection of individuals with regard to automatic processing of personal data.

Amendments to the “Personal Data Protection Law” (to be approved by December 2001) will state that Police offices must register police data processing systems in the Data State Inspection and the Personal Data Protection Law should also be applied to the Police sector.

The Action Plan for the implementation of the requirements of the Schengen acquis was adopted on 7 May 2001. The Plan will be further developed (with particular focus on the Schengen Information System) and submitted to the EU in September.

As regards visa policy, legislation is broadly in line with the acquis and the necessary administrative infrastructure to ensure its implementation is in place. The remaining shortcomings are addressed in the draft law “On Immigration”, which is expected to be submitted to the Government by September 2001. After its adoption, the corresponding regulations on the visa issuing procedure, on the travelling procedure of unaccompanied minors, and on the acknowledgement procedure of travel documents issued by countries and world organizations will be prepared.

Among the measures taken to further align with the acquis, are the amendments to the Regulations “The Procedure of Issuing of Visas of the Republic of Latvia” (5 December 5 2000) which specifies the conditions for refusal of entry to Latvia.

In accordance with the requirements of the Schengen acquis, the Latvian Government denounced the agreement with Russia on a simplified border crossing procedure for the inhabitants of the frontier area. Since 10 October 2000 the special permits have been replaced by charge-free visas for local residents. At present, amendments to the agreement with Russia on mutual travel of citizens are being drafted.

On 28 March 2001, a decision to denounce the agreement with Russia on transit train passengers crossing the territory of Latvia was adopted. Since November 2000, border guards carry out checks on transit trains throughout their route in Latvia.

In 2000, bilateral agreements on a visa-free regime were concluded with Israel, Japan and Cyprus. On 19 May 2000, an agreement with Singapore came into effect. At present, a visa-free regime has been established with 33 states. Conclusion of the agreements with the “white list” countries is continuing according to the Action Plan. At present, agreements are being negotiated with Argentina, Brazil, Chile, New Zealand, Republic of Korea, Monaco, San Marino and Venezuela.

Airport transit visas were introduced in July 2000 and the establishment of the transit zone at the airport will be completed in September 2001.
All visas are registered in the Unified Visa Information System. Machine-readable visas are issued in all diplomatic and consular missions of Latvia. Visa printers of the Department of Citizenship and Migration Affairs are installed according to the plan. Financing for the printers is provided.

A concept of Invitation Data Base as part of the Unified Visa Information System has been elaborated. It is planned to develop this base in compliance with EU standards by the year 2002 and to connect it to the Unified Visa Information System.

A description of the model “Co-operation of EU Member State Representation in the Third Countries in Extreme Situations” was prepared by Sweden and submitted to the Baltic States for consideration. It is planned to discuss the 5+3 consular co-operation model during consultations between Baltic and Nordic countries.

**Border controls.** Legislation of Latvia on external borders broadly complies with the *acquis*. The necessary administrative infrastructure to ensure its implementation is in place and has been further strengthened.

In order to ensure effective control of the EU external borders, a State Border Guard Development Concept for the years 2001-2005 was adopted in March 2001. The programme envisages, *inter alia*, the measures for the development of infrastructure, as well as the capacity building of the border guard with the aim to ensure that the Latvian border guard is fully able to organise and develop border guard services according to EU requirements by the year 2003.

The establishment of an integrated border control system is continuing. The amendments to “The Republic of Latvia State Border Law”, the law “On Border Guard” and the law “On National Defence Forces” (adopted at the first reading by the Parliament in May) define one professional organization - the State Border Guard - as responsible for national border management (including the “blue border”). The amendments also define the basic principles of co-operation between the Border Guard and the Navy. Implementation of the Twinning project with Finland and Sweden within the framework of Phare 2000 “Development of Integrated Border Management and Infrastructure” will lead to the development of an integrated border management strategy and improved co-operation among the institutions involved.

The development of the State border (upgrading of border posts and green border, improvement of data and telecommunications infrastructure) continues within 3 large projects of the State Investment Programme: IA-16 “Development of Infrastructure of the State Eastern Border”; IA-20 “Restoration of the State Border”; IA-22 “Development of Technical Surveillance, Control and Information System of the Border”. Considerable increases in financial resources were guaranteed by allocating 10.464 million LVL from the 2001 State budget (of which 3.19 million as support from the EU). In 2000 the total funding was 5.37 million LVL.

Within the project IA-16, in the year 2000 two new Border Guard sections and two surveillance towers were built. Renovation of Vilaka Board (responsible for Latvian-Russian border control) premises was completed. Completion of the construction of three Border Guard sections (*Robežnieki*, *Pededze*, *Aizgārša* – two of these combined with border crossing points) is expected in the 3rd quarter of 2001. In addition, the construction of two separate border crossing points and 11 surveillance towers will be completed by the end of this year.

The procedures for contract conclusion are underway for the construction of two more border control sections to be completed in 2002. Technical documentation for the construction of four border guard sections (*Krivanda*, *Opoli*, *Lavošnieki*, *Šķīlbēni*) is being prepared. The construction will be carried out in 2002 with the financial support of PHARE 2000. As a result, the accommodation of all eastern border guard sections in modern buildings will be completed by the end of 2002.

Technical documentation for the construction of three railway border crossing points is being prepared. The construction is expected to begin in 2002.
Work on improvement of technical facilities continued within project IA-22. (3.8 million LVL were allocated for this project from the budget in 2001. Further allocations: 4.9 million LVL in 2002 and 4.9 million in 2003). Specifications for the technical border guarding system have been finalised, and the Demo version of the Thombord programme (electronic border guarding management system) is being upgraded. So far, 8 video security systems have been installed and 5 more will be installed by the end of 2001. The premises of all border guard units on the eastern border are equipped with permanent radio communications and are integrated in the unified telecommunication network of the Ministry of Interior.

Work on developing the automated registration and processing of border crossing persons and vehicles continued. At present, computerized border control software REIS 1999 has been developed and is being implemented at 61 border control objects (38 on-line and 23 off-line). By the end of the year the majority of the border control objects should operate in the on-line regime. The structural model of the database of a new electronic border control information system REIS 2000 was improved. Installation of 16 new electronic document-reading machines will be completed by the end of July. Thus, altogether 75 machines will be installed (including 9 at Riga airport).

To prepare for participation in the FADO system, the regulation “On technical equipment of border control points” have been drafted, which will provide for the establishment of a uniform level of expertise and equipment for detecting forged documents at points of entry into Latvia (Council Recommendation 398Y0617(01)). At present, the establishment of a system for storing pictures of travel documents and their forgeries is underway. It is expected that the system will start to operate at the beginning of 2002.

The concept of the Border Guarding Information System (RAIS) has been developed in order to establish computerized processing of operative reports on border guard activities. Work on developing the software of this system has been started, namely, the software of the sub-system “The results of border control and surveillance” is being elaborated. It is expected that the system will start to operate by the year 2002.

To improve the mobility of the border guard, the purchasing of 12 four-wheel motorcycles and 19 night-vision devices was financed from the state budget. Within the framework of PHARE-99, contracts have been concluded on the purchase of 18 all-terrain cars, 15 snow-bikes and 2 patrol boats, as well as on the supply of surveillance (binoculars, night-vision devices) and orientation (GPS) equipment. As a result, by the end of 2001 the eastern border will be continuously patrolled in all its length. Since 2000, all patrol vehicles operate within a unified radio communications network.

The role of the canine service in border guarding has increased. On average, 15-20 dogs are used in border guarding every day. To prevent illegal drug trafficking across the national border, 42 dogs have been prepared for drug search and the border guards trained to work with these dogs. Five more specialists from the canine service are receiving training in a 6-month course in Germany.

Two regulations “Procedure for Crossing the State Border by Persons” and “The regime of Border Control points” have been drafted in order to implement the requirements of the Schengen Convention (on crossing external borders), Schengen Common Manual (on the internal order of border control points), and the Decision of the Executive Committee (SCH/Com-ex (94) 17 rev 4).

Restoration of the Latvian-Lithuanian border has been completed by signing of the final documents on the completion of demarcation on 28 December 2000. Latvia has completed its part of the works on demarcation of the Latvian-Belarus border.

The measures for strengthening the administrative capacity of the Border Guard are part of the State Border Guard Development Concept for the years 2001-2005. A new professional training concept of the Border Guard will be submitted for approval in August.

Within the twinning project (Finland) “Training of Border Guards” concluded in October 2000, approximately 1200 border guards improved their qualifications. It is stated in the assessment of the
project that the development of the State Border Guard and border management is leading towards fulfilment of the Schengen Acquis and will not be an obstacle for joining the EU, provided the development continues according to the guidelines created.

During the period 1997-2000, 2339 border guards were trained in the Border Guard School in Rēzekne. 67 persons graduated from the Border Guard College within the Police Academy in 2000. Starting from September, the Border Guard School in Rēzekne will be transformed into a college-type educational institution providing a first-level professional education. At the same time, the training of border guards will continue under the 1-year programme. To increase the total capacity of this educational institution, 2.2 million LVL from the State budget have been allocated. In December 2000, within the framework of PHARE, 210 border guards started a two-year course in language training (English and German). 90 border guards are attending English language courses financed by IOM. Computerisation for individual foreign language training is ongoing.

Cooperation between the Border Guard and other institutions (Border Guard, Coast Guard, Customs, Railway department, etc) continued on the basis of previously concluded cooperation agreements aimed at increasing the integrity of border control. In addition, an agreement between the Border Guard and Customs will be signed in July in order to improve information exchange. This will provide mutual on-line access to the data bases of both institutions.

Common action plans for Border Guard, Customs and Sanitary Border Inspection were developed to ensure their cooperation during emergency situations on the border. Regular training is carried out to prepare staff for coordinated actions in the event of an emergency. The creation of the Quick Reaction Unit of the Border Guard to be used in emergency situations was started at the end of 2000. At present, the first group of border guards (30 persons) have been trained and properly equipped. It is planned to reach a total of 180 persons by the year 2002.

Common sessions were organized with State Police and Customs on combating drug related crimes. Under the cooperation agreement between Latvia and Sweden, 14 seminars were held with Immigration Police on issues related to document checking. In addition, 60 border guards were trained on risk identification and assessment.

Legislation in the field of migration is broadly in line with the acquis and the necessary institutions to ensure its implementation are in place. Close cooperation is taking place between the authorities responsible for the implementation of legislation on aliens. To address the remaining shortcomings in legislation, a new “Immigration Law” will be submitted to the Government by September 2001. The draft law will cover the provisions on issuing of permanent residence permits to persons who have been legally residing in the territory of Latvia for at least 10 years; the possibility to revoke residence permits for foreigners who have employed and provided dwelling for illegal immigrants; the requirement to leave the state after finishing studies without the possibility to receive at once a residence permit due to other reasons (for instance, work); the conditions for detention before expulsion, namely, a judicial sanction will be necessary for a temporary detention exceeding 72 hours, as well as for prolonging a detention term.

With the adoption of the regulation “The Procedure of Residence Permits Issue and Registration” (on 15 May 2001) the procedures of obtaining residence permits for entrepreneurs and representatives of foreign enterprises have been simplified and the number of documents to be submitted has been reduced. The regulations were worked out taking into consideration the recommendations of the Foreign Investors Council in Latvia.

Following the agreement with the German Company “Giesecke & Devrient” (signed on 4 December 2000) the issuing of new passports will start in September 2001. The new passport system will cover citizen, non-citizen, diplomatic and service passports, as well as a non-citizens travel document. All of these will also serve as travel documents. The new passports will correspond to the recommendations of International Civil Aviation Organisation (ICAO) resolution of 1999 and the
European Union Council resolution of 17 October 2000 on the contents, structure and security of documents.

A readmission agreement with Bulgaria has been initialled and agreements with Hungary and Poland are being negotiated. Work was started on concluding new readmission and visa-free agreements with the Baltic States.

To prevent illegal immigration, airport transit visas were introduced and the procedure for receiving residence permits simplified. In general, illegal immigration is not a problem in Latvia. During the year 2000 the number of expelled persons was 237. During the first five months of 2001, 86 persons were expelled. At present, there are 27 people in the illegal immigrants detention centre in Olaine.

To improve the migration statistics, a system of asylum-seekers and refugees statistics has been introduced, and a survey of the acquisition and loss of citizenship was launched.

To improve the capacity of Latvian law enforcement agencies in combating illegal immigration, the creation of the Immigration Service within the State Border Guard is under way. The reform aims at the introduction of a unified surveillance system for foreigners and more efficient use of personnel and funds.

The Department of Citizenship and Migration Affairs is continuing the introduction of a new customer service system in order to facilitate a customer friendly policy with more convenient office hours, easier access to information on the services available, simplified submission of applications, speeding up of the processing of documents, etc.

Representatives of Latvia regularly attend international seminars on migration issues and take an active part in the work of organisations such as the Council of Europe Migration Experts Committee, Budapest Group, CIREFI, etc.

In 2001 the Phare horizontal programme “Visas, migration and border management” was commenced.

The legislation of Latvia in the field of asylum largely complies with EU requirements. An efficient and fair set of asylum procedures has been established and minimum guaranties for asylum seekers are provided. An effective structure with trained staff is in place and is capable of handling asylum applications within a reasonable time limit.

The new draft law “On Asylum” (expected to be adopted by the end of 2001) containing EU requirements in the field of asylum policy, as well as the requirements of other international documents binding to Latvia (European Convention on Human Rights and Fundamental Freedoms, Convention against Torture etc.) was submitted to the Government in April along with the necessary amendments to the laws “On police”, “On Border Guards” and “On Entry and Residence of Foreign Citizens and Stateless Persons in the Republic of Latvia”. The draft law contains the concept of safe third countries, precisely defines the non-refoulement principle concerning asylum seekers and refugees, and includes the possibility to grant an alternative status to the persons not meeting the provisions of the Geneva Convention for granting the status of refugee, yet standing in need of protection due to the threats at their residence or home country. The independence of the Appeal Council is provided for.

Within the preparation work for accession to the Dublin Convention, the necessary amendments to the legislation of Latvia are being specified in co-operation with EU experts (within TAIEX).

To collect information about the situation in the countries of origin of asylum seekers, a computerised press archive is being created in the Refugee Affairs Centre. Since 1998 (until 10 May 2001) 87 persons have applied for asylum, of which 7 have been granted the status of refugee.

In close co-operation with international organisations (the UN High Commissioner for Refugees, International Migration Organisation etc.) and European Union member states (Sweden, Denmark,
the Netherlands), a number of seminars were organised, on the Dublin Convention, on accelerated procedure for asylum applications, safe countries of origin and safe third countries concept, etc.

The project “Asylum and Migration Management System” of the Phare national programme 2001 has been adopted.

**Police co-operation in the fight against organised crime.** Latvia has acceded to all the relevant international regulatory instruments and established a legal base for cooperation with member states, neighbouring and other countries in the fight against various forms of organised crime. On 17 May 2001 the Parliament ratified the United Nations Convention against Transnational Organised Crime.

In 2000, consultations were started on conclusion of the co-operation agreement with Europol. Preparatory work is focused on data security and protection issues. It is planned to appoint a liaison officer by the end of 2001. On 3-4 April 2001 Europol experts visited Latvia in order to evaluate the readiness of the State Police to participate in Europol activities.

Cooperation agreements on the fight against terrorism, illicit drug trafficking, and other forms of organised crime were concluded with the United Kingdom (in force since 2 December 2000) and the Czech Republic (29 January 2001). The joint projects with Sweden “Ability Development in Economic Police” and “Ability improvement in combating organized crime and corruption” have commenced.

Latvia actively participates in all the expert groups of the Task Force on Organised Crime in the Baltic Sea Region (e.g. money laundering, stolen vehicles, trafficking in women, illegal migration).

Drafting of the strategy for combating crime for the years 2001-2005 has commenced. It is planned to continue the development of strategy within the Phare 2001 project “Prevention and combating of organised crime”.

In order to further align Latvian legislation regarding trafficking in human beings as well as organised criminal group, the amendments to the “Criminal Law” were submitted to the Government in June.

Reports on organised crime are developed and used for strategic planning. Special attention is paid to collecting information on location, members, local and international contacts of organised criminal groups. Information is analysed by the Organised Crime and Corruption Enforcement Bureau of the State Police. All police bodies are connected to the National Data Transmission Network and have on-line access to information about committed crimes, wanted criminals, missing persons, stolen cars and goods, invalid identification documents, etc. The Information Centre of the Ministry of Interior acts as a central information capacity to support the law enforcement agencies.

As already stated in the Commission’s Regular Report for 2000, Latvia had made good progress in strengthening institutional capacity and coordination by establishing a number of coordinating institutions and by concluding a number of inter-institutional cooperation agreements. The upgrading of law enforcement bodies continued with special focus on the fight against modern forms of crime. A division for the fight against computer crimes was established in May 2001 in the Economic Police Bureau. By the year 2002, three more divisions will be established: for the fight against money laundering; for the fight against counterfeit of money, credit cards and documents; for the fight against audio, video and computer piracy.

To strengthen the capacity of combating trafficking in human beings, as well as sexual exploitation including child pornography, 16 additional staff places were allocated to the special Vice Squad unit within the State Police. In total there will be 27 police officers in the unit, 5 of whom will work in the regional groups of the Drug Enforcement Bureau.

In order to eliminate the overlapping of functions, a special unit for investigation of explosions in Municipal Police was disbanded and the function was fully overtaken by the Organised Crime and Corruption Enforcement Bureau.
Since April 2001, a working group is working on improvement of cooperation between the State Police and the Municipal Police. The division of responsibilities and coordination are under examination.

A comprehensive legislative basis (more than 25 laws) in the area of prevention of money laundering is in place. In 2000, the list of predicate offences was extended from 31 to 41, including tax evasion. Amendments (in force since 23 March 2001) to the Regulations on mandatory reporting about unusual transactions provide for the reporting about all currency exchange transactions starting from 5000 LVL. Development of the FIU (Office for prevention of laundering of proceeds derived from criminal activity) continues according to the action plan (1998-2002). At present there are 13 employees, 4 of whom are transaction analysts, 2 computer experts and 3 computer operators. Each workplace is equipped with a computer. Development of special software for the internal database continues. At present it enables to carry out data input and search, checking for positive matches in the FIU database and external databases, creation of data schemes and their visualization, and statistical data on disclosure information.

More than 400 credit and financial institutions have to report about unusual or suspicious transactions to the FIU. The number of reported cases increased from 327 in 1998 to 4014 in 2000 (1134 in 2001). 104 cases have been forwarded for investigation since 1998. Three people were charged with money laundering. FIU has signed information exchange agreements with Belgium, Czech Republic, Finland, Lithuania, Estonia and Bulgaria.

In order to strengthen administrative capacity, particular attention is paid to training. In 2000 several training activities were carried out: “Financial crime and money laundering” (Italy, 4 persons), “Economic crime” (Slovenia, 2 persons), “Money laundering and organised crime” (France, 2 persons). In co-operation with the Nordic Baltic Police Academy and foreign colleagues, 135 police officers participated in seminars on investigation of drug crimes, car thefts, fight against cross-border crime, internal control (corruption), banking systems, cyber crimes and electronic evidence, the latest methods in forensic science. In April 2001, 96 people from police, border guard and the prosecution participated in a seminar organised by TAIEX on “Police cooperation in the area of justice and home affairs”. In the framework of a cooperation agreement with Sweden a number of seminars were held on police cooperation, judiciary, prosecutors and the penitentiary system. A joint co-operation project with the Netherlands envisages organising a training course for police officers dealing with the following issues: public relations, human resources management, quality management and overlapping in combating crime. Every week training is organised for regional police structures according to the adopted plan with participation of the representatives from the Prosecutor’s Office, State Border Guard and Customs.

In January 2001 the “Career Planning System for State Police Officers” was adopted. An educational infrastructure for the provision of the consolidated career policy of police has been established. 160 persons (August 2000) were admitted as full-time students and 84 (December 2000) as part-time students at the Police College of Police Academy. 170 police officers received additional training under the various sub-programmes of the Academy and 20 officers in other educational institutions of Latvia. In January 2001, 77 graduates of the Police Academy started to work in the State Police. 95 persons graduated from the Police School. The school is undergoing reorganisation, and it is planned to extend the training for the basic level police officers to a one-year programme.

In order to ensure public awareness, the Public Relations Division of the Ministry of Interior continued activities in developing relations with the public, primarily aiming at eliminating the crime among minors, prevention of violence against women, and protection of human rights. Several seminars “Police and society” were organised in the regions with the participation of police officers from regional units of the Traffic Police, the Public Order Police, the Security Police, the Municipal Police, the Economic Police, as well as the police management. The total number of participants was 422. The aim was to increase the confidence of the public in the law enforcement bodies and to improve police officers’ communication skills with mass media representatives and civilians.
In order to improve the salary system, the amendments to regulations on salaries for employees of the Ministry of Interior were submitted to the Government in June 2001. Improvement of working conditions for police continues, including reconstruction of premises, computerisation, purchase of vehicles and technical equipment.

Regarding the fight against fraud and corruption, during the last year 5 persons were sentenced for passive bribery, 6 for active bribery and 13 for abuse of official status, while the number of registered crimes comprised 34 cases on passive bribery, 9 on active bribery and 42 on exceeding of authority. To provide a complex approach to the fight against corruption among the law enforcement bodies, the Strategy for fighting corruption among public officials has been elaborated by the State Police. The Security Police takes an active role in fighting corruption in law enforcement and other state institutions. Within the Phare Anti-corruption Programme, regular training activities for judges, prosecutors and policemen are carried out on the investigation of corruption cases. Following the alignment to international anti-corruption instruments, Latvia ratified the Council of Europe Criminal Law Convention on 7 December 2000.

Drugs. A multidisciplinary and balanced approach to the fight against drug addiction continues to be one of the top priorities of the Government. According to the decision of the European Integration Council, the management of the Coordinating Commission for Drug Control and Fight against Drug Addiction will be transferred from the Minister of Interior to the Prime Minister. The main international conventions in the field of drugs have been ratified.

To prevent both supply and demand of drugs, the amendments made to the Criminal Law increased the criminal liability of individuals selling narcotic and psychotropic substances to minors. Further amendments have been drafted providing for increased liability for the sale of narcotic substances in schools, cafes, entertainment sites and other public places. The amendments also introduce criminal liability for illegal purchase or storage of small quantities, as well as use of narcotic substances without the recommendation of a physician. Minimum and maximum sentences are also defined.

Implementation of the Drug control and drug abuse prevention strategy for the years 1999-2003 continued. As a result of Phare 2000, a National Action Plan will be elaborated, a National Focal Point in line with the standards of the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) will be developed, and a common drug intelligence system will be established. The Focal point in the Narcology Centre, in co-operation with other institutions, prepared a National Report on the situation in the field of circulation of drugs and psychotropic substances. The Drug Enforcement Bureau (a central institution responsible for gathering and processing of all information related to drugs supply) prepares a regular analysis and disseminates it among all regional police boards, courts and prosecutors offices. In September 2000 methodological instructions to assist customs, border guard and police were prepared.

To increase public awareness, the Drug Enforcement Bureau, in co-operation with the State Narcology Centre, issues special informative materials about dependence problems and destructive consequences. Special attention is paid to the training of employees of the education system. The Ministry of Education and Science in co-operation with the Ministry of Welfare continues work on educational programmes for schools on the harmful effect of drugs and psychotropic substances, taking into consideration the age of the pupils. Regular information campaigns are carried out in schools by the Narcology Centre. A project launched by the Riga School Council and Riga Drug Prevention Centre is aimed at establishing a special mobile drug prevention unit (consisting of a social worker, psychologist and criminal police officer), which will inform pupils and their parents about drug related problems. It is planned to visit about 100 schools in Riga this year. The State Police has created the web site “Drugs” which provides general information on control of legal circulation of drugs and psychotropic substances, on drug enforcement institutions of Latvia, and on the latest amendments to legislation. Tendencies in the field of drug addiction and illegal circulation of drugs and psychotropic substances are also reviewed.
During the year 2000, the administrative capacity in drug prevention was considerably increased and cooperation among institutions was strengthened. The number of staff members of the Drug Enforcement Bureau reached 73. Five regional groups of the Bureau were established, as well as a special group for work with minors and a group for work in prisons. The Riga Drug Prevention Centre was opened.

Social rehabilitation of drug addicts is carried out according to the Law “On Social Assistance”. It is provided by municipalities and three National rehabilitation centres. Social rehabilitation is aimed at integration of drug addicts into society, and reviving of their intellectual, physical and professional abilities. Since 1999 about 660 000 LVL were allocated for rehabilitation each year.

To decrease transit of drugs, the role of customs as well as border guard has been further strengthened. Special attention is paid to cooperation among law enforcement bodies and training of staff. Information exchange has been established between the Drug Enforcement Bureau and State Border Guard on persons of risk groups who are connected with illegal circulation of drugs, in order to control them at border crossings. A special division for the control of drugs at border crossings operates within the Customs Board. To improve the detection of drug smuggling, the training of border guards and customs employees was carried out. In cooperation with the Drug Enforcement Bureau, 16 border guards were trained on detection of drug related crimes. 10 Customs officers participated in a Phare seminar on synthetic drugs. In September 2000, officers of the Drug Enforcement Bureau worked together with the Riga police departments to provide methodological and practical assistance in detection of drug related offences. 60 judges were trained on drug related issues. The role of the canine service in border guarding has increased. 42 dogs have been prepared for drug search and the border guards were trained to work with these dogs. Five more specialists from the canine service are receiving training in a 6-months course in Germany. The detection of drug related crimes during the first months of 2001 has increased.

Cooperation continues between the police of the Baltic Sea region within a “Task Force”. In September and December 2000, joint measures were taken with Lithuania, Estonia and Russia in checking persons from the risk group.

In November 2000, the Drug Enforcement Bureau participated in the operation “Precursor 2000” within the Pompidou Group of the Council of Europe. The aim was to detect the illegal circulation of drugs through Riga international airport.

In cooperation with Sweden, a seminar for Latvian and Swedish law enforcement bodies (judges, prosecutors, police) “Examination of evidence, pre-trial investigation and international cooperation” was held in November 2000.

Within the Phare 2000 “Synthetic Drugs Project” a plan for further actions for the year 2001 was prepared.

**Judicial co-operation in criminal and civil matters.** According to the World Bank functional audit recommendations, the Judicial Co-operation Division in the Ministry of Justice was established in January 2001 to strengthen international judicial co-operation. The Division is responsible for coordination of international correspondence in the framework of ratified Treaties and Conventions. It operates in close co-operation with the Prosecutor General’s Office and the Ministry of Interior.

In the field of judicial co-operation Latvia has joined all the relevant Conventions of the Council of Europe. Continuing the alignment to international instruments, the legislative basis on judicial co-operation in criminal matters is being prepared within the Criminal Procedure Law in order to join the *Hague Convention of 28 May 1970 on the International Validity of Criminal Judgements*. On civil matters, the *Hague Convention of 25 October 1980 on the Civil Aspects of International Child Abduction* was accepted by the Government on 23 March 2001 and the draft Law has been submitted to the Parliament (see also chapter *1.1. Democracy and Rule of Law*).
25. Customs union

In the area of customs the process of legislative alignment is almost completed and particular improvements have been made in the strengthening of customs administration.

The “Customs law” was last amended in March 2001, thus ensuring full compatibility with the Regulation 2913/92 establishing the Community Customs Code and the Regulation 2454/93 as regards binding information on origin, free zones and free warehouses, customs debt and the repayment and remission of duties. The provisions will come into force on 1 July 2002 along with implementing regulations of the Government. The “Customs law” is supplemented with a detailed description of all types of simplified clearance – simplified declarations, incomplete declarations, local clearance procedure, authorised consignor and authorised consignee.

The “Customs law” is compatible with EU regulations on performing customs control for protection of intellectual property rights (Council Regulation Nr. 241/1999). In the past year the Government has approved a number of important regulations regarding exemption from import duties, temporary importation, TARIC classification and issuing of guaranties\(^\text{11}\).

By the end of 2001, amendments to the law “On Customs Duty (Tariffs)” will be elaborated to complete the implementation of EU norms with respect to relief from customs duty. Amendments to the law “On Customs Duty (Tariffs)”, which aim at introduction of the Generalised System of Preferences (GSP) in compliance with the respective EU legislation, have been submitted to the Government.

A significant step towards accession to the Convention on a Common Transit Procedure is the entering into force of the Common Baltic Transit Agreement on 1 January 2001.

Administrative capacity. Over the past year Latvia has achieved substantial progress in modernisation of the customs services of the State Revenue Service (SRS). In order to rationalize its organizational structure, the SRS plans to establish, in the second half of this year, five geographical administrative customs regions instead of 22 regional customs offices.

The situation has improved significantly in the area of human resources. The personnel turnover in SRS decreased from – 58% in 1994 to 6% in 2000. The level of education in the Customs is consistently increasing. At present, 37% of employees have higher (university degree), 36% secondary professional and 27% secondary education.

In 2001, the National Customs Board (NCB) Internal Audit Division performed 16 internal audits and 2 inspections. The Inspection Unit of the NCB Internal Audit Division has performed 42 inspections. The rotation of officials exposed to a high risk of corruption has been introduced. The Internal Audit Division has started the development of a Quality Management System at customs offices. Unified technological schemes have been implemented in all customs points and a video-monitoring system is in place in all major customs points. Within the framework of the SRS modernisation project, the development of a video-monitoring centre in the NCB has commenced. 3 border control points are already connected on-line with this centre.

The enforcement work in all SRS Customs offices has been carried out in line with the Customs Control Strategy, adopted on 19 October 2000. The objective of the Strategy is development of a common and effective customs control system, providing for separation of customs control and customs service functions.

\(^{11}\) Regulation “The order, by which the customs duties are not applied to the certain goods”, approved on October 10, 2000; Regulation “The order by which the customs procedure – temporary importation shall be carried out”, approved on November 1, 2000; Regulation “On TARIC classification”, approved on January 27, 2001; Regulation “The procedure of issue and acceptance of guarantees in the State Revenue Service customs authorities” approved on February 20, 2001.
The risk analysis carried out by anti-smuggling divisions has considerably improved, i.e. the number of produced reports has decreased from 162 to 87, while the amount of money collected in the state budget has increased from 82 302 LVL to 271 186 LVL.

In the area of intellectual property protection, regular training of customs officers takes place in cooperation with representatives of brand owners. 50 customs officers of the Republic of Latvia have participated in the training during 2000 (see also chapter 5. Company law).

Over the last two years the Drug Enforcement Unit has strengthened the capacity of SRS customs offices to fight against drug smuggling. The number of detected cases of drug smuggling, especially at post offices, increases every year. More than 300 customs officers have been trained in the search for narcotic substances and search tactics. Information is regularly exchanged with the anti-drug agencies of the neighbouring countries’ customs. In cooperation with the Danish customs, a project on improving the control of narcotic substances is being carried out. Serious efforts have been undertaken regarding the control of the legal circulation of psychotropic substances and precursors.

The Post-clearance Audit Division continues to show excellent results. In the first quarter of 200, a surplus of 472 086.63 LVL was calculated. Compared to the first quarter of 2000, the increase in calculated surplus is 122.65%.

The Anti-smuggling Centre, created at the end of 1999, consisting of professional and well-trained officers from different law enforcing agencies, continues to improve its work and shows good results. Since the previous Progress Report, the Anti-smuggling Centre has investigated 16 criminal cases connected with smuggling of oil products, spirits, cigarettes and food-stuffs, 5 cases have been sent to the Customs Offences Prosecutors Unit to bring criminal cases. As a result of Anti-smuggling Centre activities, 24 000 litres of spirits, 4 808 800 cigarettes, 114 419 litres of oil products and 5209 kg of tobacco were detained. Training courses for prosecutors were held to improve their knowledge of customs legislation and anti-smuggling issues.

Latvian Customs efforts to develop and implement appropriate systems and procedures to collect and account for revenue, which were started last year, have already proved to be successful. In the first four months of this year the excise tax was collected 25% more and VAT-22% more than in the same period of 2000.

The Latvian Customs has concluded 14 Memoranda of Understanding (4 since the previous Progress Report). The Latvian Customs considers it to be an appropriate framework to combat smuggling and fraud without hindering the flow of legitimate commercial traffic and a significant step towards reducing burdens on business and facilitating legitimate trade.

The further simplification of customs procedures is one of Latvian Customs’ top priorities. The examples of simplified declaration already used in Latvia are temporary importation and release for free circulation applied in railroad transportation, pipeline transport, natural gas, electricity, ship supply, post office. A manual on simplified customs procedures has been prepared and was published in May 2001.

To ensure that the Customs procedures are uniformly understood and information regarding customs matters easily available, 15 sections of the manual on Customs procedures, as well as the TIR and ATA manuals, are now available on the State Revenue Service Internet homepage (www.vid.gov.lv).

In addition, the Customs Consultation Unit was set up at the Customs headquarters on 1 January 2001 and it is expected that a central telephone help/hot line will start operation on 1 September 2001.

The rollout of the ASYCUDA system is being continued. The implementation of the system at all customs offices outside Riga regional customs has been completed, while the implementation of it in Riga has commenced. Meanwhile, 20 customs control points have been closed in Riga. At present, 65% of all customs declarations are processed using ASYCUDA. All customs warehouses were connected on-line to the customs information system over the past year.
Issuing of authorisations for lodging customs declarations by electronic means has been started via public internet; at present it is possible at 22 customs control points and about 10% of declarations are presented electronically. Registration of electronic applications for inward and outward processing authorisation, registration and control of issuing and application of authorisations has been commenced.

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. The negotiation chapter “External Relations” was provisionally closed in November 2000.

With regard to bilateral agreements with third countries, a further two free trade agreements, namely with Turkey and Slovakia, entered into force in the year 2000. Latvia is continuing negotiations with Bulgaria, Romania and the Faroe Islands. It is worth noting that in the year 2000 79% of Latvia’s imports and 85% of Latvia’s exports were covered by free trade agreements. Moreover, Latvia’s imports from the EU constitute 52.5%, but exports 64% of Latvia’s total export.

With regard to membership in the WTO, Latvia’s international commitments in the area of services are generally harmonised with EU obligations. At the same time, in preparing for the new negotiation round Latvia generally supports the EU position on further liberalisation of the service sector and has harmonised its position with that of the Commission. Latvia also conducts consultations with the Commission concerning the bilateral negotiations of Latvia with the countries acceding to the WTO. Further progress has been achieved in the process of joining fully harmonises its commitments under the mentioned agreement with the ones of the EU and plans to complete negotiations by the end of the year 2001.

As regards development policy and humanitarian aid, Latvia has elaborated a concept on development policy. Latvia supports the Commission’s “everything but arms” concept. Amendments to the law “On Customs” have been submitted to the Government. The amendments have been prepared in conformity with the Commission’s initiative “everything but arms”.

Latvia appreciates the EU Northern Dimension initiative, recognizing the importance of harmonized, comprehensive and mutually reinforcing co-operation to facilitate endurance of stability and steady development of the region. Latvia views itself as an integral part of Northern Dimension and an equal partner in the EU Northern Dimension policy.

27. Common Foreign and Security Policy

The national policy of Latvia is in compliance with the respective EU activities. The accession negotiations on Common Foreign and Security Policy (CFSP) have been provisionally closed.

The structures required for participation in the formulation and implementation of the Common Foreign and Security Policy are in place at the Ministry of Foreign Affairs. Latvia is involved in the
multilateral political dialogue within the framework of the EU CFSP. It has aligned itself with or supported the EU Common Positions and Joint Actions within the CFSP. Latvia participates in the framework of the CFSP, including the meetings at the level of Political Directors, European Correspondents and Working Groups and in the Associated Correspondents’ Network.

Latvia has actively participated in ongoing debates on the European Security and Defence Policy (ESDP) and has welcomed the decision of the EU to involve candidates at the early stage of development of ESDP in the EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU). Latvia also offered its contribution to the EU Headline Goal within the ESDP in November 2000 (Rapid Reaction Company, EOD Unit, Medical Team, Military Police Unit, one Mine Sweeper Ship).

Latvia has been recognised as a successful candidate for NATO membership and has supported the further strengthening of the European Security and Defence Identity. This process is compatible with Latvia's defence capabilities.

Latvia actively contributes to the strengthening of European security. It has supported the efforts to stabilize the situation in the Balkans and has been able to participate with troops and personnel in all NATO-led operations in the Balkans, as well as other operations and endeavours by the OSCE and WEU. Improved capabilities for peace operations are part of development plans for Latvia’s National Armed Forces. Latvia is developing specialized units that could be used for peace missions – medical units, military police and EOD specialists. Many of these assets are indicated as potentially available also in the context of the EU’s crisis management efforts.

28. Financial control

The legislation concerning the financial control of public institutions generally complies with the acquis communautaire. The necessary institutions that ensure the implementation of the legislation are functioning properly and are being constantly strengthened.

The legal basis in the field of internal audit consists of the regulations “On Internal Audit” and “On the Charter of the Internal Audit Council”. At present, the draft law “On Internal Audit” is being fine-tuned with a view to submitting it to the Government in the beginning of 2002.

Pursuant to the recently adopted “Public agencies law”, the implementing regulation will be submitted to the Government in July 2001. This legislation will set out detailed rules for establishment of internal audit structures in public agencies.


A report by the Internal Audit Council on the state of play in implementation of the internal audit system has been submitted to the Cabinet of Ministers for consideration. The same refers to a joint report on performance of the internal audit system in 2000.

Administrative capacity. Internal audit units, which have been established within each ministry, are functionally independent of the ministry. At present, 188 auditors are working in the government sector. The Internal Audit Council established by the Government bears overall responsibility for smooth functioning of the internal audit system in the public administration. In August 2000, the Government approved members of the Council. The Internal Audit Department of the Ministry of Finance effectively performs the functions of Internal Audit Council Secretariat.

With PHARE support, 100 internal auditors have received basic training in internal audit (in 2001, 60 internal auditors underwent this course). 8 trainers and internal audit basic courses programmes were certified in July 2000. The Ministry of Finance has ensured monthly forums for heads of internal audit units in all ministries for discussing and solving problems of both practical and
methodological nature. Reinforcement of the co-ordinating role of the Ministry of Finance in the field of internal audit will take place under the auspices of a PHARE’2000 project. Furthermore, the Internal Audit Department within the Ministry of Finance is being constantly strengthened – since January 2001 it has two additional staff.

Methodological information on performing internal audit is accumulated in the Internal Audit Manual. It includes step-by-step guidelines for developing audit needs assessments, strategic plans and annual plans. A project for introduction of the Access database for following up the implementation of internal audit recommendations and for introduction of the time recording system has been developed.

A number of activities are envisaged to ensure elaboration of internal audit procedures with respect to EU pre-accession instruments and structural funds. A procedure for turnover, accumulation and analysis of information related to monitoring of compliance of the Rural Support Agency with the accreditation criteria is being developed; a methodology of auditing the process of preparation, implementation and supervision of the ISPA projects will be elaborated.

As regards external financial control, the State Audit Office has prepared a new draft law “On the State Audit Office”. The draft provides that one of the tasks of the SAO is to control the income and expenditure of the state and local governments budget, as well as the use of the resources allotted 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 end-user of the EU funds. According to the draft, the SAO will not receive any benefit from the fines and surcharges collected. Financial independence is embedded in the principle that the SAO budget request will be submitted directly to the Parliament. The bill will be submitted to the Parliament by July 2001; the expected time of adoption is September-October 2000. The respective secondary legislation will be amended by the end of 2002 accordingly.

Administrative capacity. The State Audit Office (SAO) has developed into a supreme audit institution with good repute, high competence, integrity and fairness of performance.

At present, 170 people are employed by the SAO, 126 of them auditors. The SAO has carried out audits of annual financial statements in 576 local governments, 27 ministries and central government bodies. During the year 2000, the SAO carried out 4 audits of Phare projects. A number of pilot audits have been carried out for the staff to get acquainted with the new audit approaches, in order to prepare for elaboration of financial control procedures with respect to EU pre-accession financial instruments and Structural funds.

The Strategic Development Plan provides for a framework in which strengthening of the SAO is being conducted. Programmes for auditing EU PHARE projects funds have been elaborated and draft procedures for joint audits of EU funds have been developed. The SAO has been working on development of control measures relating to EU Own Resources; substantial assistance will be provided under the auspices of the PHARE’00 project “Public Expenditure Management” which will start in September 2001.

As far as co-operation with EU services is concerned, including communication of violations and irregularities in use of EU funds, Latvia confirms that the Prosecutor's General Office is the contact point for provision of information on violations in EU expenditure programs in Latvia. Furthermore, Latvia is in the process of reviewing and developing its system of inter alia notification of irregularities to the EU authorities. Consultations with national and EU authorities are held to identify the most appropriate single contact point for co-operation with responsible EU services.
In 2000 and in the beginning of 2001, the Latvian authorities continued optimisation of the budget process with strong emphasis on medium term budgeting. To strengthen the link between strategic priorities of the Government and the state budget, “Methodology for Fiscal Planning 2002”, which will be a basis for elaboration of “The medium term macroeconomic development and fiscal policy basic parameters 2002-2006”, was adopted. Furthermore, the “Methodological Guidelines on the Medium Term Budget Planning” were elaborated. The document approaches the issue of all-embracing improvement of budgeting and public expenditure management, which, in turn, will positively influence efficiency of utilisation of public funds and ensure realisation of the Government’s political priorities.

In the context of planning of the Budget 2001, the “Guidelines on elaboration of the state budget for financial year 2001” were elaborated. “Recommendations on development of the State Budget for 2001-2003” were prepared and the law “On the Annual State Budget 2001” was drafted. Specifically, review of state budget programmes / sub-programmes with a view to postponing or cancelling expenditure that does not fully correspond to priorities was continued. Long-term commitments facilitating implementation of strategic projects were incorporated. Resources coming from EU-financed programmes were included in the budget; adequate national co-financing was envisaged.

To back up the integration process, “The basic parameters of how to determine the impact of integration on the state budget” were elaborated and put in use with the ultimate objective to provide for a clear picture of activities to be carried out and resources needed. Guidelines for financial planning of the National Programme for Adoption of the Acquis were elaborated and employed in the course of annual review of the NPAA.

Progress has been achieved also in terms of development of supporting systems for budget planning training staff. Regarding forecasting capacities, under the framework of the PHARE '98 project a model for macroeconomic analysis, as well as its description, has been developed; the database has been created. An extensive exchange of opinions and experience between the Ministry of Finance and the German BMF took place, including study visits to Germany.

Under the framework of the same project, the IT system for budget planning and the State Treasury's IT systems have been improved. The firewall solution compliant with the project’s technical specification has been implemented. A system for quick exchange of information between the institutions involved in the budget process has also been installed. The most suitable contractor has been chosen for procurement and installation of the systems for accounting and administration of the state debt, forecasting and risk management and administration of financial resources.

Regarding the own resources system, a working group was set up with the ultimate objective to complete the preparatory activities to be carried out to ensure respective functions on the basis of the already existing institutional set–up by 1 January 2003. Further assistance with regard to participation of Latvia in the EU system of own resources in particular, and concerning all aspects of budget procedures in general, will be delivered under the auspices of the PHARE’00 project “Public Expenditure Management” (due to start in September 2001).

4. Translation of the acquis

In Latvia, the translation of acquis 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 10 revisers, 7 terminologists, 4 in-house and approximately 25 freelance translators. All translations produced by the TTC go through a terminology check and a revision stage.

As of June 2001, about 28 200 Official Journal pages of the secondary EU legislation have been translated into Latvian, of which approximately 5 000 OJ pages have been translated during the first half of 2001; the number of fully revised pages is slightly lower. Most of the acquis translations have been done so far for the Ministry of Agriculture (41%), followed by the Ministry of Welfare (8%) and the Ministry of Economics (7%).

Terminology is an important part of the work done by the TTC; in mid 2001, the TTC terminology database contained approximately 29 000 terms. The TTC administers a central terminology database which includes also terminology from sources other than the TTC and contains approximately 121 900 terms. It is available to the public through the Internet via the TTC home page.
C. Accession Partnership and NPAA

1. Accession Partnership

The Accession Partnership is a single framework document, which identifies the priority areas for further pre-accession preparations. Priorities, as set out in the Accession Partnership, are implemented through the Latvian National Programme for Integration into the European Union.

Political criteria. On 6 February 2001 the Government adopted the full version of the National Programme “The Integration of Society in Latvia”. The Ministry of Justice was appointed as the responsible institution for implementation of the programme, and the Department of Social Integration at the ministry has been entrusted with responsibility for implementation of the National Programme. On 30 November 2000 the Saeima (parliament) adopted progressive amendments to the law on the Constitutional Court to broaden the scope of those eligible to submit applications. Until the changes, eligible applicants included the President, no less than 20 parliamentary deputies, the Government, the plenary of the High Court, the Council of the State Control, the National Human Rights Office and city councils. On 13 December 2000 the Government adopted a decision to make public the report by the European Committee for the Prevention of Torture on Latvia’s closed institutions.

Economic criteria. The macroeconomic situation maintains strong positive potential. The Gross Domestic Product in Latvia in 2000 grew by 6.6% compared to 1999. Inflation has remained low, with the CPI rising by only 1.8%, retaining one of the best positions among the Central and Eastern European states. The unemployment rate fell to 7.8% at the end of 2000 (9.1% at the end of 1999).

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 are gradually being liberalised. The law “On Regulators of Public Utilities” (which will come into force on 1 July 2001) foresees the establishment of a unified State public service regulation procedure and a single regulatory authority for the areas of energy, telecommunications, postal services, railway transport and passenger carriage.

There are only two large state owned public utilities remaining for privatisation – Latvian Shipping Company (LSC) and Lattelekom. In December 2000, the Government passed privatisation rules of the Latvian Shipping Company (LSC), which were elaborated in co-operation with the Dutch consulting company BDO New Markets. In February 2001, the Government approved the long list of bidders for the privatisation of the majority interest (68%) of the LSC. It was expected that majority interest would be sold in May 2001, but the only two applicants suspended their participation in the auction and the Latvian Shipping Company was not sold. On 15 May 2001 the Government took the decision to start the privatisation process of Latvian Shipping Company once again.

In March 2000, the Government authorised the Latvian Privatisation Agency to conduct negotiations with the private shareholder of Lattelekom – Tilts Communications, co-owned by Sonera and IFC, about the review of the Umbrella Agreement and compensation for the reduction of the Lattelekom monopoly period.

The privatisation of land and apartments has significantly contributed to the clarification of property rights and further strengthening of the land market. By the end of 2000 approximately 462 697 real estate units were registered in the Land Book. Land registration in the State Land Cadastre is virtually complete. In 2000, privatisation of state land continued at an accelerated rate, while 757 purchase agreements were concluded (in 1999 – 382).

Internal market. Significant progress in the alignment of laws to the internal market acquis has been achieved in the field of free movement of services. Firstly it should be noted that the law “On
the Financial and Capital Markets Commission” has been adopted, which foresees the consolidation of the individual supervisory authorities for the insurance, banking and securities sector into one single, independent supervisory institution. The Commission will start its work in July 2001. Two other important laws have been drafted: amendments to the law “On Deposit Guarantees for Physical Persons” for the implementation of the directive on deposit guarantee (94/19/EC) and the law “On the Protection of Investors” in compliance with the EC Directive on the investors’ protection scheme (97/9/EC). A number of regulations of the Bank of Latvia of Latvia have been passed for the implementation of banking directives, for example, on capital adequacy for credit institutions (93/6/EEC), on settlement finality in payment systems (98/26/EC), on the monitoring and control of large exposure of credit institutions (92/121/EEC), on the real time gross settlement system, on securities accounting, on interbank settlement accounts, and on granting pawn credits. The legislation in the field of the securities market has been developed by drafting amendments to the law “On Securities” for the implementation of the requirements of the EC directives on settlement finality in payments systems (98/26/EC) and on investment services (92/22/EEC).

Since October 2000, new legislation has been adopted in most areas of sectoral legislation in the field of free movement of goods, the most important being meteorology (Amendments to law “On Uniformity of Measurements” and 3 regulations), chemicals (Amendments to the law “On Chemical Substances and Chemical Products”), pharmaceuticals (7 regulations), electrical risk and equipment (7 regulations), and foodstuffs (12 regulations of Government).

To ensure effective co-operation between market surveillance authorities, the Market Surveillance Council has been established. Its role is to provide exchange of information and opinions between market surveillance bodies, which are carrying out surveillance of conformity to the requirements of legislature acts in different sectors. The first meeting of the Market Surveillance Council was held on 15 February 2001.

On 1 January 2001 the independent Data State Inspection, which supervises and controls the operation of personal data processing systems, registers the systems, reviews complaints and supervises the data flow to other countries, began work. On 4 May 2001 the Saeima ratified the Convention of the Council of Europe on Protection of Individuals against Automatic Processing of Personal Data.

In the field of public procurement the new law “On Procurement for Government and Municipal Needs” has been drafted in accordance with the requirements of EU directives and has been adopted in the second reading by the Saeima. To increase the capacity of the supervisory institutions of the public procurement sector, the concept “Improvement of the Public Procurement System by Use of Information Technologies” has been elaborated.

In the field of Company law the greatest achievement was the harmonisation of the law “On Sworn Auditors” with the 8th Council Directive.

Amendments to the law “On Value added Tax” which remove a great deal of non-compliance were adopted by the Parliament on 23 November 2000. The amendments are effective from 1 January 2001. The amendments include the clarification of place of rendering the transportation, telecommunications services and services related to movable property, abolishes the discrimination on the imposition of VAT on books and the tax exemption on printing houses from 1 January 2003, and cancels the existing restriction on input tax deduction.

The amendments to the Customs law (adopted in the Parliament on 29 March 2001) ensure its full compatibility with the Council Regulation No.2913/92 (establishing the Community Customs Code), the Commission Regulation No.2454/93 (Implementing Regulations to Community Customs Code) and the EU regulations on performing customs control for protection of intellectual property rights (Council Regulation Nr.241/1999 amending Regulation Nr.3295/94). A range of secondary legislative acts (prepared in line with the EU Customs Code) has been passed in the course of 2000 and the first half of 2001.
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 EC Directive “Television without Frontiers”.

**Agriculture.** Significant progress has been achieved in the field of harmonisation of legislation in the agricultural sector. As concerns mechanisms of market organisation, all institutions necessary for implementation of the EU common market organisations have been set up. A multi-annual SAPARD financial agreement was signed in Brussels on 25 January 2001. A pre-accreditation audit of the Rural Support Service (future paying agency) has been carried out. The annual financial agreement could be signed to allocate the funding for Latvia in the corresponding financial year after the accreditation of the Rural Support Service as a paying agency by the EU auditors. Since October 2000, new legislation was adopted in the veterinary sector – 5 regulations, forestry (7 regulations), zootechnical legislation (4 regulations), seed control (5 regulations). In April 2001, a framework law “On Veterinary Medicine” was adopted, which partly introduces EU requirements in the sphere of veterinary medicine and sets up the basis for a complete incorporation of the EU veterinary requirements into national legislation.

On 20 April 2001 the Government adopted the Concept establishing joint food quality and safety control service subordinated to the Ministry of Agriculture. The concept foresees the establishment of a control service by the end of 2001, which is more effective and corresponds to the main objectives of the European Union and the existing models of most developed countries. The concept foresees the merging and rationalising of the structure of the existing supervisory authorities and transfer of the newly established service to supervision of the Ministry of Agriculture. The new service is to be built on the basis of the State Veterinary Service, incorporating the Sanitary Border Inspection, State Quality Control Service of Plant Products and part of the State Sanitary Inspection involved in food control.

**Fisheries** With regard to resource management, inspection and control, Latvia’s legislation is generally in line with the acquis. Therefore, significant work is being carried out to ensure effective implementation of the legislation. Latvia has paid additional attention to the outstanding matters of national fisheries legislation with a view to its integration towards respective EC regulations. These matters include the creation of a fishing vessel register, the common fisheries information system and satellite tracking control system.

Amendments to the “Fishing law” were adopted on 3 March 2000. These amendments not only set the requirements for the establishment of an information system in the fisheries sector, norms relating to the fishing vessels fishing in international waters and flying the flag of Latvia, but also approved the National Board of Fisheries as the competent authority of the fisheries control and information system. The regulation “On Control of Fish Landing and Fish Sales, Transport, Storehouses and Production Premises” setting the control order for fish landings, fish sales, means of transport, storage and production premises was adopted by the Government on 27 February 2001.

**Transport.** Amendments to the law “On Ports” were adopted on 22 March 2001. The Maritime Code and law on Maritime Administration and Maritime Safety are expected to be adopted by the end of the year 2001. Since 2000, Latvia has joined a number of conventions of the International Maritime Organisation (IMO). This year Latvia plans to adopt the international 1969 Convention relating to intervention on the high seas in cases of oil pollution casualties and 1999 the International Convention on arrest of ships, among others.

In accordance with the requirements of the SOLAS Convention, Latvia has established the GMDSS system. In July 2001 the GMDSS will start to operate on the Latvian coastline and Latvia will thereby be fully integrated in the GMDSS network.

**Energy.** The members of the single Public Services Regulatory Commission have been appointed and by 1 October 2001 it will take over the public services regulatory functions in the respective state-regulated industries, including Energy. On 21 November 21 2000 the Government accepted The
Energy Efficiency Strategy. The Strategy provides a detailed plan for implementation of the *acquis* in the energy efficiency field, and Latvia’s participation in the SAVE II programme.

**Employment and Social Affairs.** The law “*On Information and Consultation and Information of Employees in Community-Scale Undertakings and Groups of Undertakings*” was adopted by the Parliament on 29 March 29 2001. *Acquis* on equal pay, on equal treatment with respect to access to employment, etc. is fully transposed by the “*Labour Law*”. The Labour law was accepted by the Parliament in on 20 June 2001. The law “*On Labour Protection*” that was adopted on 20 June 2001.

In 2001 following laws are expected to be adopted: the law “*On the Protection of Employees in the Event of the Insolvency of their Employer*” (November) and the law “*On Labour disputes*”.

**Environment.** Noticeable progress has been achieved in 2000 and the first half of 2001 in almost all environment sectors, especially in the horizontal sector, nature protection, nuclear safety, air quality protection, waste management, and reduction of industrial pollution. Work has been accelerated in nature protection and radiation protection legislation. The law “*On Waste Management*” which ensures transposition of EU waste sector requirements was adopted in December 2000 and will come into force on 1 March 2001. The law “*On Radiation Protection and Nuclear Safety*” was adopted in October 2000. To harmonise the chemicals legislation with EU provisions, the law “*On Chemical Substances and Chemical Products*” was amended in December 2000. In March 2001, the law “*On Pollution*” was adopted, transposing directive 96/61/EC. This law sets requirements for public consultation before IPPC permits and permits for waste incineration are issued. It sets basic principles for the pollution prevention and control, and determines emission limit values and environmental quality standards in water sector. Progress has been achieved in the *nature protection* sector – 7 Government regulations have been adopted since October 2000.

**Justice and home affairs.** The reform for the transformation of court bailiffs into an independent legal profession has moved forward by the approval of the law “*On Sworn Court Bailiffs*” by the Government in March 2001. In the framework of a *Phare 1998* project, several training activities and seminars for the staff of the Department of Court Bailiffs of the Ministry of Justice have taken place. Amendments to the Civil Procedure law have been drafted for the effective enforcement of judgements.

Work on implementation of the single informative system in all courts is continuing. The instalment of the necessary hardware and software has started in several courts of the 1st and 2nd instances. At present, all 16 regional courts and town courts have been switched to the State unitary data exchange network.

A working group under the auspices of the Ministry of Culture was established in March 2001, which has drafted the necessary amendments to the existing legislation, and in particular to the Administrative Penalties Code, Criminal law and the Criminal Procedure Code for the effective implementation of the protection of intellectual property rights.

On 1 January 2001, in order to prevent the possibility of using the financial system of Latvia for legalisation of criminal assets, the staff of the Office for Prevention of Laundering of Proceeds derived from criminal activity was increased by 4 units.

By 31 December 2001 annual visa-related training of officials of territorial divisions of the Department of Citizenship and Migration Affairs, as well as officials of the Ministry of Foreign Affairs who are going to work in missions of the Republic of Latvia abroad, will take place. Training will also be organised for the staff of the Immigration Police of the State Police to prepare them properly to work with visas.

By 31 December 2001 Latvia intends to adopt the “*Immigration Law*”, which will correspond to the requirements of the European Union.
It is envisaged that amendments to the law “On Asylum Seekers and Refugees in the Republic of Latvia” will be adopted by December 2001. These amendments will provide protection for persons who may not be regarded as refugees according to the 1951 Geneva Convention “On the Status of Refugees”, but who must be protected according to the international obligations of Latvia.

In 2000, the Latvian-Russian agreement on simplified border crossing was denounced.

According to the decision taken in Government on 3 April 2001, the State Border Guard, supervised by the Ministry of the Interior, is the main responsible authority for guarding the whole state border. The National armed forces’ sea and airspace observation system will be used to manage border guarding, defence and control.

In December 2000, within the framework of the Agreement between the Governments of Latvia and Sweden on Development of Co-operation and Technical Assistance in Justice and Home Affairs, work was started on the elaboration of the project “Increasing of the capacity of the Economic Police Bureau”.

In 2000, Latvia expanded its network of legal basis for international judicial co-operation by ratification of the two important international agreements: the 1971 Hague Convention on laws applied in the case of motor vehicle accidents and the 1961 Hague Convention on competent authorities and applicable law in the protection of minors. The ratification of two more international conventions by the Parliament are still pending: the 1996 European convention No. 160 on the application of children’s rights and the 1977 European agreement No. 92 on transfer of legal assistance requests both of which Latvia signed at the end of 2000.

**Reinforcement of administrative and judicial capacity, including the management and control of EU funds.** In order to provide better co-ordination of the national policy implementation and to achieve greater transparency and accountability in public administration, on 11 March 2001 one of the new framework laws for public administration, the law “On Public Agencies” was adopted. The Framework law “On Public Administration” has been submitted to the Parliament. Thorough implementing the laws in the public administration area (in particular the new State Civil Service law), the civil service system will be strengthened, the transparency of performance of public administration institutions will be improved, management and accountability for effective use of resources will be strengthened and attainment of the goals set by the Government will be ensured.

The draft “Regional Development Law” has been elaborated. The purpose of the law is to define the regional development system in the state, which will provide a better basis for planning of regional development and realising the support activities for regional development. The draft law defines the Ministry of Regional Development and Planning as the central institution responsible for regional development issues at the national level and the National Regional Development Council as the coordinating institution on issues of regional development. The concept “On changes in the legislation necessary to implement structural adjustments for Regional policy and co-ordination of EU Structural Funds” has been prepared. In order to ensure the introduction of EU pre-accession financial instruments in the Republic of Latvia, on 2 January 2001 the Government accepted regulations “On the procedure of the preparation, confirmation and control of the projects financed by the EU pre-accession financial instruments’ resources.”

Programmes for auditing EU PHARE project funds and draft procedures for the joint audits of EU funds in accordance with the Regulations of the Government “On internal Audit” have been elaborated. In order to bring the legal framework on the SAO into compliance with EU norms, amendments to the law “On State Audit Office” have been drafted and are being discussed with the SIGMA experts.
2. Latvian National Programme for Integration into EU

The Latvian National Programme for Integration into the European Union, incorporating the Programme for Adoption of the Acquis (NPAA), has been updated and amendments are going to be approved by the Government by the end of July.

Negotiations are proceeding and create new implications on the planning of the integration process. Thus all recent developments of the negotiation process have been reflected in the updated NPAA. The programme contains extensive references to the existing Accession Partnership and the Commission progress reports. As every year, the European Commission Progress Report and Comments of the NPAA giving an evaluation of EU related developments in Latvia presented some indications for the update of the document, which were taken into account.

No significant structural changes were introduced this year. The programme is divided into four main parts in accordance with the Copenhagen political, economic and acquis criteria and the Madrid administrative capacity criteria. Each of the four parts follows the structure of the Commission’s Progress report.

The main element of the NPAA is Project Fiches (developed according to the so-called Log-Frame methodology) that set out more clearly the objectives and the planned activities for their achievement. This structure ensures coherence in the descriptions and timings of specific projects. Each priority, mentioned in the project fiche, includes a financial table indicating financial recourses accessible in the state budget or allocated by international financial instruments for achieving concrete objectives.

A wider coverage of the activities (legislative and institutional) has been introduced for several sectors of the acquis. This year the institution-building part of the NPAA has been extended. Institution-building analytical fiches have been prepared for the chapters of the negotiations. The analyse the necessary human resources developments arising from the acquis. The acquis of each negotiation chapter is taken as a basis for identifying the institution-building needs.

This year preparation of the NPAA and planning of the state budget took place concurrently. The objective for such a process was to ensure financial recourses in the budget for the most important NPAA priorities of the year 2002.

The NPAA contains summary, which gives an overview of the main developments, and planed activities in each of the sectors as concerns both the transposition and the implementation of the acquis. The developments reflect a time period from the adoption of the previous updated version of the NPAA. The summary also points out the main activities, which will be carried out in short term i.e. during the year 2001.

The implementation of the NPAA is monitored using an electronic management system accessible to all line ministries. The European Integration Bureau supervises how the activities planned in the NPAA have been carried out and prepares quarterly reports on implementation of the NPAA. The reports are presented for review to the Council of Senior Officials as and the European Integration Council, which controls at the political level the integration process of Latvia into the EU.