

# **REGULAR REPORT**

**FROM THE COMMISSION**

**ON**

**SLOVENIA'S**

**PROGRESS TOWARDS ACCESSION**

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## Table of contents

### **A. Introduction**

#### **a) Preface**

The Context of the Progress Report

#### **b) Relations between the European Union and Slovenia**

The enhanced Pre-Accession Strategy

Recent developments in bilateral relations

### **B. Criteria for Membership**

#### **1. Political criteria**

##### **1.1 Democracy and the Rule of Law**

Parliament

The Executive

The judicial system

Anti-Corruption measures

##### **1.2 Human Rights and the Protection of Minorities**

Civil and Political Rights

Economic, Social and Cultural Rights

Minority Rights and the Protection of Minorities

##### **1.3 General evaluation**

#### **2. Economic criteria**

##### **2.1 Introduction**

##### **2.2 Economic developments since the Commission published its Opinion**

Macroeconomic developments

Structural reforms

##### **2.3 Assessment in terms of the Copenhagen criteria**

The existence of a functioning market economy

The capacity to cope with competitive pressure and market forces

##### **2.4 General evaluation**

#### **3. Ability to assume the obligations of Membership**

##### **3.1 Internal Market without frontiers**

General framework

The Four Freedoms

Competition

##### **3.2 Innovation**

Information Society

Education, Training and Youth

Research and Technological Development

Telecommunications

Audio-visual

##### **3.3 Economic and Fiscal Affairs**

Economic and Monetary Union

Taxation

Statistics

##### **3.4 Sectoral Policies**

- Industry
  - Agriculture
  - Fisheries
  - Energy
  - Transport
  - Small and Medium Enterprises
  - 3.5 Economic and Social Cohesion**
    - Employment and Social Affairs
    - Regional Policy and Cohesion
  - 3.6 Quality of Life and Environment**
    - Environment
    - Consumer Protection
  - 3.7 Justice and Home Affairs**
  - 3.8 External Policies**
    - Trade and International Economic Relations
    - Development
    - Customs
    - Common Foreign and Security Policy
  - 3.9 Financial Questions**
    - Financial Control
  - 3.10 General evaluation**
- 4. Administrative Capacity To apply the *Acquis***
- C. Conclusion**
- D. Accession Partnerships and National Programmes for the Adoption of the *Acquis*: Global Assessment of Implementation**
1. Accession Partnership
  2. National programme for the adoption of the *Acquis*

**Annex**

Statistical Data

## A. Introduction

### a) Preface

In Agenda 2000 the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership and that it would submit its first report at the end of 1998. The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*. Prior to those reports, implementation of the accession partnerships and progress in adopting the *acquis* will be examined with each applicant State in the Europe Agreement bodies. The Commission's reports will serve as a basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States' ability to meet the economic criteria and fulfil the obligations deriving from accession.

A dynamic approach should be maintained in assessing the progress made by applicant States in the regular reports which the Commission will submit to the Council.”

The European Council in Cardiff supported those conclusions, stating that “The Union's priority is to maintain the enlargement process for the countries covered in the Luxembourg European Council conclusions, within which they can actively pursue their candidatures and make progress towards taking on the obligations of membership, including the Copenhagen criteria. Each of these candidate countries will be judged on the basis of the same criteria and will proceed in its candidature at its own rate, depending on its degree of preparedness. Much will depend on the efforts made by the candidate countries themselves to meet the criteria. All will benefit from strengthened relations with the EU including through political dialogue and tailored strategies to help them prepared for accession.”

In accordance with the guidance provided by these Council Conclusions, the progress report on Slovenia follows the same structure as the Opinion. It

- describes the relations between Slovenia and the Union, particularly in the framework of the Cooperation and Interim Agreements;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)
- assesses Slovenia's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)
- addresses the question of Slovenia's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

This approach ensures equal treatment for all the candidate countries. The report takes into consideration progress since the Opinion. It looks at whether intended reforms referred to in the Opinion have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. Each report contains a separate section which examines the extent to which Slovenia has addressed the short term priorities set out in the Accession Partnerships.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the Opinion, the economic assessment is based on a longer term evaluation of Slovenia's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. Only in this manner was it possible to objectively measure and compare concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the Opinion. Their presentations at the meetings held under the auspices of the Cooperation and Interim Agreements, their National Programmes for the Adoption of the *Acquis* and the information provided in the context of the analytical examination of the *acquis* provided were additional sources of information. Council deliberations on the Opinion and the reports and resolutions of the European Parliament on the Commission Opinions<sup>1</sup> and in particular the report on the application of Slovenia for accession to the EU prepared by Mr. Speciale were taken into account in the preparation of the reports. The Commission also used assessments made by the Member States, particularly with respect to the political criteria for membership and the work of various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the IFIs as well as that of non-governmental organisations in preparation of the regular reports.

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<sup>1</sup> European Parliament Doc. 224.339 'Report on the Communication from the Commission Agenda 2000' (Rapporteurs: A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens)

## **b) Relations Between the European Union and Slovenia**

### *The Enhanced Pre-Accession Strategy*

On 30 March 1998 the accession process was formally launched by a meeting of the Ministers for Foreign Affairs of the fifteen EU Member States, the ten Central and East European applicant states and Cyprus. In advance of this meeting country specific Accession Partnerships were adopted to support the applicant countries in their preparations for membership. These documents set out the priorities for further work and the supporting financial assistance available from the EU. In March Slovenia presented a first version of its National Programme for the Adoption of the *Acquis* (NPAA) which describes in more detail the actions needed to reach the objectives set out in the Accession Partnership. Following the opening of the Intergovernmental Conference, Slovenia presented the main elements of its integration strategy at the opening session of the EU-Slovenia accession negotiations in Brussels on 31 March. An analytical examination of the *acquis* ("screening") started on 3 April. Pre-accession aid will be increased substantially. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agriculture and a structural instrument which will give priority to measures similar to those of the Cohesion Fund in environment and transport. The Phare programme will concentrate on institution building and investment in other areas.

### *Recent developments in bilateral relations*

The present contractual relationship between Slovenia and the EU is still regulated by the Cooperation Agreement and the Interim Agreement on trade and trade related matters. The Europe Agreement, signed on 10 June 1996, is not yet into force pending the completion of the ratification process by Member States. Slovenia ratified the Agreement on 15 June 1997. It is expected to enter into force in 1999. The various joint institutions have functioned smoothly.

The Cooperation Council has never met. The Joint/Cooperation Committee, under the Interim Agreement met in February 1998. The system of subcommittees continues to function as a forum for technical discussions.

Since the issuing of the Opinion the Interparliamentary Committee comprising representatives of the Slovene and European Parliaments met in October 1997. It decided to set up the Joint Parliamentary Committee which however never met because the Slovene Parliament failed to nominate their delegation until September 1998. The meeting is now foreseen to take place in December 1998.

In 1997 EU exports to Slovenia amounted to 6.3 billion ECU and Slovene exports to the EU were 4.6 billion ECU, with Slovenia having a deficit of 1.7 billion ECU. This represents an increase of 19% in EU exports and 9% in Slovene exports as compared to 1996.

The 1998 Phare programme consists of a national allocation (10 MECU), based on the Accession Partnership priorities, to support in particular statistical reform, regional policy and environment, as well as the participation in Tempus. An additional 9 MECU have been allocated for a cross-border cooperation programme.

Slovenia also participates in and benefits from Phare funded multi-country and horizontal programmes such as customs, environment, small and medium sized enterprises, statistics, public administration reform and TAIEX.

## **B. Criteria for membership**

### **1. Political Criteria**

#### *Introduction*

In its 1997 Opinion on Slovenia's application for EU membership, the Commission concluded that:

“Slovenia presents the characteristics of a democracy, with stable institutions, guaranteeing the rule of law, human rights and respect for and protection of minorities”.

In the Accession Partnership with Slovenia “further clarification of the situation pertaining to property legislation with particular regard to the right to purchase property for EU citizens” is a short-term priority and the pursuit of “efforts to speed up property restitution” is a medium-term priority.

#### *Recent developments*

President Milan Kucan was reelected (55.5% of votes) on 23 November 1997.

The centre-right Government formed on 27 February 1997, is still in place with a coalition between the Liberal Democrats (LDS), the Slovene People's Party (SLS) and the Pensioner's Party (Desus). The same Government is in place although there have been some ministerial changes.

On 31 July 1997 the Foreign Minister resigned following intense criticism of the conduct of foreign policy. A new Foreign Minister and a Minister in the newly created Office of European Affairs (established to strengthen the national accession strategy and improve internal coordination) were appointed in September 1997. A new Ministry for SME was established and a Minister appointed also in September. The new Defence Minister, confirmed by Parliament on 13 March 1998 following the resignation of his predecessor, also resigned in October 1998.

The change of Ministers, however, has not resulted in any major shift in government policy and EU-membership is still one of the key objectives of the Government.

### **1.1. Democracy and the Rule of Law**

#### *The Parliament*

The Slovene Parliament continues to operate satisfactorily. Its powers are respected and the opposition play a full part in its activities.

The legislative process is nevertheless slow: every law needs three “readings” in Parliament and instabilities within the coalition slow down parliamentary decision making.

Elections to the National Council, an advisory body, were held at the end of November 1997. All 40 new members were elected representing different interest groups (employers, trade unions, farmers, self-employed, non economic activities).

### *The Executive*

The executive continues to operate smoothly.

In addition to the present 147 municipalities a referendum approved the creation of 35 new municipalities. The process of transferring additional powers to the municipalities must be completed before the local elections of 22 November 1998 .

Public administration reform is underway, but progress in this area has been slow. On the positive side a State Secretary responsible for Administration was nominated.

### *The Judiciary*

Not much progress has been achieved .

The main problem is still the slowness of the judicial process, particularly in the criminal field. This is related to the fact that in attempting to provide strong Human Rights guarantees, Slovene legislation now foresees too many and too extensive legal remedies. Implementation needs to be improved. The procedural law should be revised to take into account the right to a speedy trial.

There is a lack of judges and support staff. Recourse to alternative methods of dispute resolution (reconciliation, arbitration, mediation, settlement) should be considered. The number of vacancies for judges remains almost the same as in 1996, i.e. 12%. In 1997 the number of posts foreseen for judges has been increased from 708 (1996) to 714 (1997). The minimum age for judges has been reduced by two years in order to fill the remaining vacancies.

On the positive side some measures have been taken. These include the entry into force of a Law on Administrative Courts on 1 January 1998. A Law on Execution and Guarantees has been adopted. Amendments to the Penal Procedure Law have been adopted in October 1998.

Amendments to Penal Law and Penal Procedure Law are now at the second reading in the Parliament. A Law on Civil Procedure, is also under discussion in Parliament.

Despite the fact that a special programme for the training of judges, prosecutors and notaries is underway, training of judges should be further strengthened.

In spite of these developments there is still a large backlog of cases at all levels <sup>2</sup>, in particular in local courts, which also receive the largest number of cases.

### *Anti-corruption measures*

According to the available statistics and reports corruption problems are relatively limited. However in view of increasing problems in this field, including the regional and international dimension, the authorities have undertaken measures to further combat corruption. These efforts need to be strengthened.

The Parliament amended a Law on the Ratification of the Convention on Money Laundering so as to incorporate fully the provisions of the Council of Europe. Amendments to other laws aim at broadening the definition of corruption and money laundering.

## **1.2.. Human Rights and the Protection of Minorities**

The general assessment of the protection of human rights remains positive.

Slovenia has already acceded to most of the major international human rights instruments. On 25 March 1998 it ratified the Framework Convention for the Protection of National Minorities. The Government signed the European Charter for Regional or Minority Languages of the Council of Europe but has not ratified the European Social Charter.

### *Civil and Political Rights*

Basic civil and political rights continue to be respected in Slovenia. However the denationalisation process needs to be speeded up and the issue of “stateless people” needs to be solved.

Recent developments include the following:

- With regard to the right of “residence” the Law on foreigners was changed prolonging the period of temporary residence in Slovenia to 8 years as a condition for obtaining permanent residence. The Constitutional Court passed a ruling in June 1998 that those who applied before this change and who had fulfilled the condition of the former law (3 years temporary residence) are not affected by the new law.

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<sup>2</sup> It has been estimated that the number of cases currently pending before the courts is between 800.000 and 1.000.000.

- With reference to the rights of foreigners to purchase property, in accordance with the exchange of notes on property issues attached to the Europe Agreement (Annex XIII),<sup>3</sup> on 14 July 1997 the Slovene Parliament approved an amendment of article 68 of the Constitution. According to the new Art 68, foreigners now have the right to purchase real estate under the same conditions as Slovene citizens if this right is stipulated in an international agreement or defined by a national law.

Paragraph 1 of Annex XIII has to be implemented “ by the end of the 4th year from the entry into force of the Association Agreement” and two pieces of legislation are being prepared : (1) a Law on Property Rights and on Other Real Estate Rights, which will be submitted for the second reading soon, which will replace the still applicable Yugoslav legislation , and (2) a Law on Property Rights and Other Real Estate Rights for Foreigners.

Paragraph 2 of Annex XIII, which has to be implemented “ from the entry into force of the EA” is directly applicable without needing new legislation. Administrative guidelines are needed to explain how to fulfil the conditions.

The Slovene Government has confirmed that it will fully comply with the provisions of Annex XIII within the timetable agreed.

- The process of denationalisation remains slow. The total value of the property claimed for restitution, which has been decided at the end of June 1998 represents 30% of the total: 25% of claims were approved and 5% rejected.

In September 1998 the Parliament approved some amendments to the law on denationalisation of 1991. The amendments create a Fund for Agricultural Land, responsible for the restitution of nationalised agricultural land, clarify restoration of property to foreigners and of property of feudal origin and defined more clearly procedural matters. However these amendments have been, immediately after adoption, suspended by a Decision of the Constitutional Court. Therefore the denationalisation law of 1991 is still in application pending a ruling by the Court.

The Government signed a separate framework agreement with the Church on the return of its properties, acknowledging the Church’s claims. However there is still disagreement over the implementation of the agreement.

- A Land registry exists but its computerisation is necessary to speed up transfers of land.

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<sup>3</sup> According to Annex XIII Slovenia is committed:

“I. to take the measures necessary to allow the citizens of the Member States of the European Union, on a reciprocal basis, the right to purchase property in Slovenia on a non-discriminatory basis by the end of the fourth year from the entry into force of the Association Agreement;  
 II. to grant to the citizens of the EU Member States, having permanently resided on the present territory of the Republic of Slovenia for a period of three years, on a reciprocal basis, the right to purchase property from the entry into force of the Association Agreement”.

- Delays concerning citizenship claims are still fairly numerous, although decreasing. Slovenia has not yet solved the problem of persons without a regulated status. UNHCR estimates that there are currently around 5.000-10.000 persons without legal status (mainly citizens of former SFRY republics) in Slovenia. There has been an increasing commitment to solve the issue by a special law aiming at regulating the position of the persons concerned.
- There are still about 8.700 registered refugees mostly as a result of the Bosnian war. However, since 1996 the majority of asylum seekers come from Iran, Liberia, Iraq and Bangladesh. The Slovene government has adopted a new regulation on the rights of refugees.

In respect of refugees from Bosnia and Herzegovina the Government prolonged the offer of temporary refugee status for citizens from Bosnia-Herzegovina and the law on temporary refuge was endorsed in April 1997. The number of temporary refugees is assessed by the UNHCR to be 4,134 (June 1998).

- The Ombudsman performs his work efficiently and his recommendations are considered seriously by Parliament and Government. This reflects a high level of awareness of the importance of respecting and protecting human rights. In 1997, the Ombudsman received 3854 complaints, 14.8% more than the year before. Most of the complaints (27%) related to court and police procedures followed by complaints on administrative matters. The number of complaints increased considerably in the field of labour rights and social security and 22% of complaints were legally founded (mostly regarding long court procedures).

### *Economic, Social and Cultural Rights*

Basic economic, social and cultural rights continue to be respected in Slovenia. The following developments can be noted:

- Some new measures and laws were introduced to guarantee social rights. In June 1998, the Government passed an active Employment policy programme for 1998 with the aim of reducing the number of unemployed. The law on the social security fund was amended in February 1998 to support those who lost their jobs due to their employers' insolvency. The law on minimum wages was amended (February 1998), based on the 1997/98 social agreement according to which basic salaries are to be harmonised once a year (for 85% of the living costs increase (February 1998).
- Trade unions are increasingly active. Strikes were organised by all four major trade unions in December 1997 against the government's austerity measures, in March 1998, against the pension reform, policy on salaries, social stratification and insufficient legal protection. Negotiations are going on among the four trade unions to coordinate their activities to represent more efficiently the rights of employees, especially in view of the upcoming pension and social reforms.
- With reference to economic rights a number of Croatian depositors with Ljubljanska Banka presented a petition to the Council of Europe against Slovenia for violation of Human Rights. This is related to the loss of savings deposited in the Zagreb branch of the former Ljubljanska Banka (transformed into "Nova Ljubljanska Banka" after the split of Yugoslavia). The issue needs to be solved in the context of the Yugoslav state succession within the framework of international law.

## *Minority Rights and the Protection of Minorities*

The rights of minorities are further guaranteed and protected. As already mentioned the Parliament adopted the law in order to ratify the Framework Convention for the Protection of National Minorities on 25 March 1998. Moreover, the Government signed the European Charter for Regional or Minority Languages of the Council of Europe in July 1997 which confirmed rights granted to minorities in Slovenia under national law.

The situation of the Roma continues to present some problems and in 1997 the Parliament adopted a report on the situation of the Roma population which is now estimated around 6.500 - 7.000 people. Only 13% have full-time work and 25% occasional or seasonal work. Programmes to help the Roma population have been financed by the State budget, through local authorities.

### **1.3. General Evaluation**

Developments in Slovenia confirm the conclusion of the Opinion that Slovenia fulfils the Copenhagen political criteria and that its institutions continue to function smoothly.

However, continuing attention needs to be paid to streamlining the judicial and the parliamentary process and to ensuring that Europe Agreement obligations as concerns property ownership are met.

## **2. Economic criteria**

### **2.1. Introduction**

In its 1997 Opinion on Slovenia's application for EU membership, the Commission concluded that:

“Slovenia can be regarded as a functioning market economy”; it “should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that rigidities in the economy are reduced”.

In examining the economic developments in Slovenia since the Opinion, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion.

## 2.2. Economic developments since the Commission published its Opinion

Economic growth in Slovenia has accelerated since mid-1997. The reduction of inflation has slowed down, partly as a result of the elimination of price controls. In spite of lower real wage growth, unemployment has remained largely the same. Fiscal policy appears to be under control, compared to its performance in 1997. No important changes have been made to monetary policy. On the whole, the relatively favourable starting position of the Slovene economy has continued to hold back the sense of urgency for structural reforms.

### *Macroeconomic developments*

The economic recovery in the EU continued to promote favourable macroeconomic developments in Slovenia. As a result, real GDP increased by an estimated 3.8% in 1997, compared to 3.1% in 1996. First preliminary figures for 1998 indicate that growth is accelerating further. Slovenia remained largely isolated from the Russian crisis, because it trades little with Russia and its banks are not heavily exposed. Foreign demand has been the driving force, while growth in domestic demand was less marked than in previous years. In particular, growth in household consumption remained relatively subdued, mainly as a result of lower wage increases. Investment and government consumption, on the other hand, recorded substantial real growth rates in 1997.

Despite the moderate increase of domestic demand, growth of real imports of goods and services accelerated to close to 10%, mostly as a consequence of the high import content of Slovene exports. The fast growth of exports and imports continued also in the first months of 1998. Because exports grew somewhat faster than imports, the trade deficit declined slightly from 4.7% of GDP in 1996 to 4.3% in 1997. As in previous years, a substantial part of the trade deficit was offset by the surplus on the services account. Nevertheless, this surplus declined, as lower cross-border price differences have reduced the shuttle trade with neighbouring EU Member States. The current account remained positive and close to balance, as in 1995 and 1996.

The inflation rate has continued to decline, but at a slower pace. This is to be expected, as the rapid slowdown of inflation in the early years of independence cannot only be attributed to a strict monetary policy, but was partly due to price controls and slow adjustment of administered prices. In 1997, the authorities have liberalised a number of previously administered prices, and have eliminated part of the price disparities, without endangering the achieved level of price stability. As a consequence, almost half of the inflation rate in 1997 can be attributed to changes in administered prices. Despite these significant price adjustments, the average growth of the consumer price index over the whole year decreased further from 9.9% in 1996 to 8.4% in 1997<sup>4</sup>. Continued price adjustments in 1998 have slightly increased the average year-on-year inflation rate to 8.4% in the first nine months, compared to 8.2% in the same period of 1997. Goods with prices under government control now represent 17% of the CPI basket, compared to 21% at the end of 1997.

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<sup>4</sup> In the past, Slovenia used the retail price index (RPI) as its official price indicator. From 1 January 1998 onwards, the consumer price index (CPI) is used instead of the RPI. Due to the different composition of the baskets of goods that are used to calculate the indexes, the resulting inflation rates are also slightly different. For example: the average inflation rate in 1997 based on the RPI was 9.1%, compared to a CPI inflation rate of 8.4%.

1997 has seen a fundamental change in real wage developments. Whilst in previous years, excessive pay rises had been an important source of inflation and one of the factors that negatively affected employment, a new wage adjustment law was passed by Parliament in June 1997 to keep wage growth below the labour productivity increase. Wages are now adjusted for 85% of inflation only once a year, instead of every quarter. As a consequence, average real wages per employee increased by only 2.4% in 1997, compared to 5.1% in 1996. This is substantially lower than the 3.8% growth in labour productivity. This trend continued in 1998.

Despite the slow-down in real wage growth, unemployment remained at the same level

| Slovenia: Main economic trends    |                        | 1994 | 1995 | 1996 | 1997 | 1998 latest |            |
|-----------------------------------|------------------------|------|------|------|------|-------------|------------|
| Real GDP growth rate              | <i>per cent</i>        | 5.3  | 3.9  | 3.1  | 3.8  | 4.8         | Jan-Jun    |
| Inflation rate                    |                        |      |      |      |      |             |            |
| annual average                    | <i>per cent</i>        | 19.8 | 13.5 | 9.9  | 8.4  | 8.4         | Jan-Sep    |
| December-on-December              | <i>per cent</i>        | 19.5 | 8.9  | 9.1  | 8.8  | 7.1         | Sep-on-Sep |
| Unemployment rate, end-year       |                        |      |      |      |      |             |            |
| ILO definition                    | <i>per cent</i>        | 9.0  | 7.4  | 7.3  | 7.1  | 7.7         | Jul        |
| registered                        | <i>per cent</i>        | 14.2 | 14.5 | 14.4 | 14.8 | 14.2        | Jul        |
| General government budget balance | <i>per cent of GDP</i> | -0.2 | 0.0  | 0.3  | -1.1 |             |            |
| Current account balance           | <i>per cent of GDP</i> | 4.2  | -0.1 | 0.2  | 0.2  |             |            |
|                                   | <i>billion ECU</i>     | 0.5  | 0.0  | 0.0  | 0.0  | -0.1        | Jan-Jul    |
| Foreign debt                      |                        |      |      |      |      |             |            |
| debt/export ratio <sup>1</sup>    | <i>per cent</i>        | 27   | 30   | 39   | 40   | 43          | Jul        |
| gross foreign debt                | <i>billion ECU</i>     | 1.9  | 2.3  | 3.2  | 3.7  | 4.1         | Jul        |
| Foreign direct investment inflow  |                        |      |      |      |      |             |            |
| net inflow according to EBRD      | <i>per cent of GDP</i> | 0.9  | 0.9  | 0.8  | 1.8  |             |            |
| balance of payments data          | <i>million ECU</i>     | 108  | 135  | 146  | 283  | 122         | Jan-Jul    |

Source: Commission services, national sources, EBRD

<sup>1</sup> Gross hard currency debt as a percentage of exports of goods and services

as in 1997. The inertia of unemployment is becoming a structural problem, because the majority of the registered unemployed is more than 40 years old, has a low level of education and has been without a job for more than a year. Nevertheless, in the second half of 1997, the continuous decline of total employment seems to have been arrested. This was mainly the result of increased public employment.

1997 was a peculiar year for Slovene public finances. General government expenditures rose rapidly as public wages and social benefits were increased in the pre-election period at the end of 1996. Moreover, the approval of the 1997 budget was considerably delayed and was only adopted by Parliament in the beginning of December 1997. In the meantime, expenditures were governed by various provisional financing rules, which limited most expenditure categories to their 1996 level. Because the late approval of the budget had significantly limited expenditures in 1997, the government decided that expenditures that were foreseen could still be spent until the end of January 1998. To limit the budget deficit, it was also decided to transfer part of the sales tax revenue of January 1998 to 1997. When these additional revenues are included, the general government deficit amounted to 1.1% of GDP. Had the fiscal year been finished on 31 December 1997, the budget deficit would have been 1.7% of GDP. This implies a significant deterioration compared to the small surplus of 0.3% of GDP in 1996. The budget for 1998 foresees a reduction of the deficit to almost 1% of GDP, a level planned to be maintained in 1999.

### *Structural reforms*

There are some promising signs that enterprise restructuring, which has proceeded slowly in Slovenia until now, is picking up. The overall profitability of Slovene commercial enterprises is improving. In 1997, the aggregated net profits of the enterprise sector were close to zero, whereas in 1996 the sector had registered a loss equivalent to 1% of total revenues. This is mainly the result of a 45% increase in net profits of profitable enterprises, whilst losses in unprofitable enterprises stabilised in nominal terms. A recent study based on a very large sample of enterprises has shown that the companies that were responsible for the largest part of losses in the past went bankrupt in 1996. This shows that the bankruptcy mechanism starts to work. Another positive evolution is that, although the overall investment level is not increasing rapidly, its composition is shifting from construction to investment in equipment. Also, foreign direct investment (FDI) flows accelerated in 1997. However, FDI figures for the first half of 1998 do not confirm this trend. Despite these positive developments, losses are still concentrated in two categories of enterprises : non-privatised enterprises (mostly owned by the Slovene Development Corporation) and state-owned enterprises. In 1996, these two groups of enterprises, characterised by major government involvement, still accounted for some 44% of total assets.

Privatisation of socially-owned enterprises is now almost completed. The majority of enterprises were bought by their management and workers (“internal buy-out”). However, because bigger enterprises were mostly sold to external (mainly domestic) owners, enterprises with external ownership represent a bigger share in total assets. In July 1998, the authorities have decided on the list of state-owned assets that are going to be privatised against the remaining vouchers. After the removal of this privatisation gap, the voucher privatisation will be completed. While socially-owned enterprises are gradually disappearing, state-owned enterprises still account for the biggest share (about a third) of total assets. Besides utilities, this group comprises banks, insurance companies, steelworks and mines, whose restructuring would benefit from privatisation.

| Slovenia: Main indicators of economic structure<br>(all data for 1997 unless otherwise indicated) |                        |        |
|---|------------------------|--------|
| Population  | <i>million</i>         | 2.0    |
| GDP per head  | <i>PPS-ECU</i>         | 13 000 |
| as % of EU-15 average   | <i>per cent</i>        | 68     |
| Share of agriculture in:<br>gross value added<br>employment                                       | <i>per cent (1996)</i> | 4.4    |
|   | <i>per cent (1996)</i> | 10.1   |
| Investment-to-GDP ratio   | <i>per cent</i>        | 24     |
| Gross foreign debt/GDP  | <i>per cent</i>        | 23     |
| Exports of goods & services/GDP   | <i>per cent (1996)</i> | 54     |
| Stock of foreign direct investment <sup>1</sup>   | <i>billion ECU</i>     | 1.0    |
|   | <i>ECU per head</i>    | 486    |

Source: Commission services, national sources, EBRD, IMF  
<sup>1</sup> FDI stock converted at end-1997 exchange rate of 1 ECU=\$1.10421

Although the financial sector has already undergone significant restructuring, competition remains low, costs are still high and it remains small in both absolute and relative terms. The main factor that is preventing rapid progress on consolidation of the banking sector is the pending privatisation of the two state-owned banks. The authorities have announced that they will adopt legislation on bank privatisation in 1998. The insurance sector is generally poorly capitalised and its restructuring is still in the early stages. Money and capital markets remain shallow and underdeveloped.

## **2.3. Assessment in terms of the Copenhagen criteria**

### *The existence of a functioning market economy*

The existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. The performance of a market economy is enhanced by macroeconomic stability and consensus about economic policy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

Slovenia is well advanced with the introduction of the legal framework for a market economy. However, an appropriate regulatory framework for public enterprises is lacking, supervision in the financial sector is not yet sufficiently strong, and the reform of the fiscal system is incomplete (for example VAT and excise duties still have to be introduced). The degree to which the market mechanisms work still needs some improvement: bankruptcy procedures are cumbersome, a cartel still operates in the banking sector, and, despite some progress, liberalisation of the capital account is still slow. Although indexation mechanisms are gradually being phased out, they are still widely spread and introduce a significant amount of inertia into the economic system.

The privatisation of socially-owned enterprises is now almost complete. The voucher privatisation will also be finalised after the removal of the privatisation gap. Because management and workers bought the majority of enterprises, there is a widespread lack of corporate governance. Since the workers and management of the enterprises are also its owners, the willingness to implement necessary reforms to improve productivity is reduced. To deal with some of these problems, the authorities have announced in their EU Accession Strategy that they intend to improve take-over legislation, and strengthen capital markets to consolidate enterprise ownership and to improve corporate governance.

At about a third of total assets, state-owned enterprises still constitute the most important group of enterprises. Some of these would benefit from privatisation. For enterprises that remain state owned, progress is still needed in the separation of ownership, regulatory and management functions, and in the definition of their respective responsibilities. Cost-conscious and demand-oriented production in these enterprises is also essential for the overall performance of the enterprise sector. The recent adjustments of utility prices to bring them closer to cost recovery is a first step in the right direction.

In 1997 and 1998, significant advances have been made on the liberalisation of administered prices, on the increase of cost recovery for utilities, and on the reduction of price disparities between controlled prices of goods and world prices. Prices continue to be administered for public utilities, communal services, sugar, and wheat and flour from commodity reserves. According to the Slovene Accession Strategy, the government will announce a programme for the completion of price liberalisation in 1998, which will be implemented before the end of 2000.

Macroeconomic stabilisation is relatively well established in Slovenia: inflation is in single digits, the budget deficit is modest, the current account remains close to equilibrium, the currency is relatively stable, and economic growth is accelerating. Nevertheless, the evolution of public finances in 1997 was less than satisfactory. Although at 1.7% of GDP (1.1% if the fiscal year is partly extended to January 1998) the level of the deficit remains low, the deterioration by 2% of GDP in one year raises

concerns. The higher general government deficit will have to be brought down again to make room for expenditures to complete the reform of the economy. The objective of the government is to reduce the deficit to almost 1% of GDP in 1998 and 1999. The reform of the pension system is a particular challenge for Slovene public finances. The authorities have announced that short-term actions will be taken to assure the sustainability of the current system. However, a more fundamental reform with the progressive replacement of the existing pay-as-you-go system by a three-pillar system will be needed to assure the long-term sustainability of the pension system.

Although the financial sector is sufficiently developed to allow the functioning of the economy, it is still far from being internationally competitive in terms of product variety, soundness and costs. Because of continued high state involvement, the sector lacks competitive pressure. Therefore, the pending privatisation of the remaining state-owned banks will be a welcome impetus for consolidation of the banking sector, on condition that the banks are sold to strategic, possibly foreign, investors, in a transparent and non-discriminatory way. Competition in the banking sector will also be increased by the new Banking Act (to be adopted in 1998), which will allow the establishment of branches of foreign banks. Major efforts are still needed to improve the development and competitiveness of the insurance sector and of money and capital markets.

The Slovene authorities have devoted considerable resources to develop a consistent medium-term economic policy framework. After the publication of Slovenia's Strategy for Accession to the European Union, the Commission and the Slovene authorities have agreed upon a Joint Assessment of the Medium-Term Economic Policy Priorities of Slovenia. This document presents a consistent set of economic policies that are required to complete the economic transformation of Slovenia and to prepare its economy for accession to the EU. The fact that the Accession Strategy is backed by a wide consensus in Parliament is a guarantee for its implementation. However, experience has shown that ambitious reforms, such as the pension reform or the introduction of VAT, are often watered down or postponed when they have to be implemented.

Slovenia can be regarded as a functioning market economy, although there is still room for progress. There is a satisfactory degree of macroeconomic stability, price liberalisation is continuing. However, the legal environment needs to be completed and market mechanisms have to be reinforced. Competition remains limited in a number of sectors, partly because the state remains heavily involved in the running of the economy. In particular, progress is needed in privatisation, including of the remaining state-owned banks.

### *The Capacity to Cope with Competitive Pressure and Market Forces within the Union*

Slovenia's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Evidence of this is provided by both the volume and the range of products traded with EU Member States.

Macroeconomic stabilisation is relatively well established in Slovenia. This allows economic agents to make production, consumption and investment decisions in a climate of a reasonable degree of stability and predictability. The high degree of attention of the authorities for the establishment of a consistent medium-term framework for economic policies is also decreasing uncertainty for economic agents.

Investment as a percentage of GDP has been gradually increasing from 18.6% in 1992 to 23.7% in 1997, which is still a moderate level. The biggest increase has been recorded for investment in infrastructure, mainly in road construction. This type of investment understandably does not produce immediate improvements in productivity, but lays the foundation for future gains. The share of infrastructure investment in total investment declined in 1997, in favour of investment in equipment, which is more beneficial for immediate productivity improvements. Although basic scientific research is at a high level, there is not enough investment in enterprise-based and applied research. Moreover, research and development expenditure is concentrated in a limited number of sectors.

Although the amount of FDI increased significantly in 1997, it remains low compared to the size of the economy and it decreased again in the first half of 1998. Higher amounts of foreign direct investment would promote the competitiveness of the concerned enterprises not only through the increased investment, but also through the introduction of new technologies and management techniques.

Infrastructure is well developed and further investment in telecommunications, transport and energy are being implemented or planned. Increased private ownership and competition, and more generalised cost-based tariffs will be needed to further increase the quality and availability of infrastructure services. Significant progress has been made in reorienting the education and training system to improve the links with the qualifications that are needed in the labour market.

In recent years, the level of competitiveness in Slovenia had been affected by rapid wage growth. However, in 1997 and the first months of 1998, wage growth slowed down considerably as a result of the new wage adjustment law. The increase of average real wages per employee is now substantially lower than growth in labour productivity, which has a favourable impact on competitiveness.

Enterprise restructuring, which has proceeded slowly in Slovenia in the past, seems to be accelerating. The overall profitability of Slovene commercial enterprises is improving. The bankruptcy mechanism seems to have been able to eliminate the largest loss making enterprises, but it remains slow and cumbersome. Other positive signals are the acceleration of foreign direct investment in 1997 and the increase of investment in equipment. However, incentives to restructure remain weak in enterprises where management practices have not changed sufficiently, such as state-owned enterprises, non-privatised enterprises, and enterprises owned by management and workers.

Because of the remaining problems of the banking sector, and the underdeveloped financial sector in general, enterprises have difficulties to finance the investments needed for their restructuring. Due to the high operating costs in the banking sector, real credit interest rates are high, given the degree of stability in the economy. The links between bigger enterprises and their banks are often strong, so that the latter do not exert sufficient financial discipline on the former.

There is a sustained high degree of trade integration with the Union – about two thirds of total export and import flows are with the EU. The composition of trade has not changed significantly in recent years. Slovenia continues to export a relatively wide range of products. This is an indication of a widespread ability to compete in the single market. The diversified export base also reduces the vulnerability of the economy to the full integration in the single market and the adoption of the *acquis*, even if some sector would prove to be unable to withstand competition.

Developments since the Opinion have confirmed the Commission's conclusion that Slovenia should be able to cope with competitive pressure and market forces within the Union in the medium term. Trade integration with the Union continues to be high and diversified. Progress has been recorded in enterprise restructuring, although its financing through the banking sector can still be improved. Wage moderation and investment in infrastructure and human capital are helping to increase competitiveness. Attracting higher levels of foreign direct investment would promote enterprise restructuring. To make further progress, Slovenia will have to improve its track record on the implementation of planned reforms.

## **2.4. General Evaluation**

Slovenia can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that planned reforms are fully implemented.

Since the Opinion, Slovenia has made progress in the liberalisation of administered prices and in the reduction of price disparities. Wage growth has slowed down and is now substantially lower than growth in labour productivity. Improved enterprise profitability indicates that enterprise restructuring is accelerating. Macroeconomic stabilisation remains solid, although the evolution of public finances was less than satisfactory. Progress has been made in the establishment of a framework and timetable for the completion of the remaining necessary economic reforms, which include measures to ensure macroeconomic stabilisation and market-driven structural reforms in the enterprise, finance and public utilities sectors.

As the implementation of structural reforms remains often too slow, priority should be given to the determined and faster implementation of the planned reforms. Further reinforcement of the market mechanism by liberalising the capital account, putting an end to indexation practices and less involvement of the state in the economy are required.

## **3. Ability to Assume the Obligation of Membership**

This section aims to up-date the Commission's Opinion of 1997 as concerns Slovenia's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1997 Commission's Opinion on Slovenia's application for EU-membership, the Commission concluded that

“Slovenia has to make considerable efforts to take on the *acquis*, particularly as regards the effective application in the area of the internal market. In addition, important progress

will be necessary in the sector of environment, employment and social affairs and energy”.

The presentation which follows uses the same structure as the 1997 Opinion, but the general descriptions of each sector have been omitted. Instead, the report focuses on progress made since July 1997. Under each heading legislative decisions and progress in implementing and enforcing the legislation is reported.

### **3.1. Internal Market Without Frontiers**

As explained in the Opinion, the Union’s internal market is defined in Article 7a of the Treaty as an area without internal frontiers in which the free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislations but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

#### *General Framework*

Some legislative alignment is still needed, in particular in the fields of public procurement (mainly the coverage of utilities and the phasing-out of national preferences), intellectual and industrial property, company law and data protection. The main issue remains the enforcement of legislation and training of the institutions responsible for implementation.

Little progress has been made in public procurement in the last twelve months. The present Public procurement law, which entered into force on 1 July 1997, is still not fully compatible with the *acquis*. It contains a provision allowing national bidders a 10% higher price provided they are equally fulfilling other terms and conditions. Some training on public procurement has been provided to public operators in particular at the administrative Academy.

The Audit Commission for Public Procurement, established in April 1997 by the Law on Public Procurement, became operational in 1998. It is an independent body set up to protect bidders and has the right to suspend tender decisions.

In the field of copyright, a few amendments (on terms of protection, exhaustion, exclusive rights for cable retransmission) are still needed to bring Slovenia’s legislation into line with the *acquis*. Greater attention should be dedicated to enforcement, notably border enforcement.

As regards industrial property rights, Slovenia became party to the Madrid Protocol and Budapest Treaty in March 1998. An application to accede to the Munich Convention has

also been submitted. Some further legislative work remain necessary to fully comply with the *acquis*, notably with regard to the Supplementary Protection Certificates for medicinal products and plant protection.

The amendments to the Company Law, scheduled for the end 1997, have not yet been adopted. The 1993 Law on Commercial Companies still contains discriminatory provisions against foreign directors and foreign firms (nationality condition for board membership) and should be amended urgently.

With regard to accounting, nearly all requirements in the Fourth and the Seventh Directives appeared to have been implemented by mid-1997. Some fine-tuning of the 1993 Law on Audit is still necessary to bring it into line with the Eighth Directive. Implementation of the existing rules is still an issue, notably with regard to a shortage of qualified auditors .

The law on data protection of 1992, is still not in line with the *acquis*.

### *The Four Freedoms*

#### **Free Movement of Goods**

The process of legislative alignment has not advanced very much since July 1997. No changes have been introduced in the framework legislation necessary for the implementation of the Old and New Approach Directives. In the field of legislation falling under the New Approach, Slovenia has only transposed one Directive, namely the Directive on electromagnetic compatibility. Progress has been made with regard to the implementation of the explosive atmospheres directive. Some progress has been made with regard to motor vehicles legislation.

Some 5000 Slovene national standards have been adopted, of which more than half are European Standards. However, numerous ex-Yugoslav standards are used as a reference in non-harmonised legislation and require mandatory third-party certification.

With regard to the structures necessary to apply the *acquis*, Slovenia has not yet achieved the required separation between the regulatory, standardisation, accreditation and certification functions. It is not clear whether certain institutions are in conformity with EU requirements and the tasks of public services still have to be defined. Further reinforcement of standardisation and conformity assessment structures is needed.

#### **Free Movement of Capital**

Despite the fact that the Opinion recommended that Slovenia take appropriate measures to allow foreign banks to open branches in Slovenia (through a new Foreign Exchange Act) and to review macroeconomic policies to promote higher foreign direct investment, the requisite legislation is not yet in force, and little progress have been achieved. Liberalisation of capital movements is still very slow.

Alignment of legislation with the Community rules is still hindered by the restrictive measures imposed by the Bank of Slovenia. Nevertheless some actions have been taken in 1998: in the field of portfolio investments (obligatory custody accounts) and external

credits and loans (obligatory interest-free tolar deposits) restrictive measures the Bank of Slovenia have been partially eased.

### **Free Movement of Services**

Not much progress has been made in consolidation and privatisation of the banking and insurance sectors. Supervisory capacity, notably with regard to insurance markets, still needs to be strengthened.

However some consolidation of the banking sector is progressing with the formation of a fourth banking group by Banka Koper and M Bank, and with Banka Domžale joining the state-owned NLB banking group.

With reference to the banking sector, there was no progress in approximation of legislation. A new real-time gross settlement system was implemented in April 1998 indicating that, the Slovene authorities have made good progress in their reform of the payment system.

From a Report published by the Bank of Slovenia in December 1997, it appears that some steps have been taken to implement the Basle 25 Core principles for effective banking supervision.

There are still gaps relative to the *acquis* on securities markets. The principle of national treatment for foreigners wishing to establish or acquire an investment firm in Slovenia has still to be introduced.

Regarding *insurance*, no developments have taken place since mid-1997.

### **Free Movement of Persons**

#### *a) Free movement of persons, freedom of establishment and mutual recognition of diplomas and qualifications*

With regard to mutual recognition of diplomas and professional qualifications, by mid-1997 most of the *acquis* had already been taken on board and most structures were in place. No further developments have been reported since the Opinion.

No development has taken place in other aspects of free movement of persons. There are still restrictions on employment of non-national employees in top managerial positions and immigration and work permit policies are still somewhat restrictive.

#### *b) Abolition of Checks on Persons at Internal Frontiers*

No particular development can be reported.

### *Competition*

In respect of anti-trust, the Slovene competition rules, which have major shortcomings, have not been modified since July 1997, even though the National Programme for the Adoption of the *Acquis* foresees amendments to various laws during 1998.

The Competition Protection Office has issued four negative decisions since July 1997 (on monopolies, vertical monopolies, and two on cartel cases). More than 30 cases are pending. Some of the decisions of the Office have been appealed before the civil courts, but all of them were upheld. The very low staff levels in the Competition Protection Office do not appear to allow a sufficient level of enforcement.

In the petrol sector the Government removed the clauses which discriminated against foreign investors on tendering for petrol stations along motorways.

In the field of state aids, little progress has been made. Loss making enterprises (e.g. in the steel industry) have benefited from substantial capital injections from the state budget. State aid practices remain non-transparent and a full inventory is still to be completed.

The initial efforts that have been made to categorise and quantify State aid reveal that total State aid (including indirect forms of State aid such as guarantees on credits and deferrals of taxes and social security contributions) would amount to some 4.4% of GDP. However, in view of the lack of transparency in this field, it is uncertain at this stage whether the existing aid schemes and grants fully comply with the State aid rules of the Europe Agreement.

There is still no institution charged with the monitoring of State aids in Slovenia or with controlling its compatibility with the State aid rules of the Europe Agreement. However the Government decided on 10 October 1998 to establish a State aid Monitoring Authority. The members and the president of the Authority will be appointed before the end of 1998

## **Conclusion**

In the Internal Market area Slovenia has not achieved substantial progress since July 1997, although the area is one of the short term priorities of the Accession Partnership. Major efforts are needed to align legislation in a number of areas, notably public procurement, banking insurance, company law and industrial products. Greater attention should be paid to effective implementation and enforcement of the legislation.

Despite some positive indications concerning the current implementation of anti-trust legislation, a lot of work is still required. In order to ensure the effective and efficient enforcement of the competition law it will be of utmost importance to improve administrative capacity. Moreover proceedings for the adoption of the new competition act should be speeded up.

In the field of State aid, considerable efforts are needed to align legislation, to establish an Inventory and make the Monitoring Authority operational. This should be reinforced as a priority in the Accession Partnership and the National Programme for the Adoption of the *Acquis*.

## **3.2. Innovation**

### *Information Society*

Slovenia participates in the Joint High Level Committee on Information Society and supports the development of the information society. No new developments have been reported since the Opinion, Slovenia remaining in a favourable position to realise potential in this field.

### *Education, Training and Youth*

An agreement on higher education and science was signed in June 1998 between the Government, the universities and the trade unions, stipulating a new system for financing higher education, and setting out how universities should operate.

As recommended by the Opinion, budgetary resources were reoriented in line with the priorities identified in keeping with the priorities of a small market economy aimed at international competitiveness.

Slovenia has stated its interest in participating in the Youth for Europe, Socrates and Leonardo Da Vinci. However participation cannot start before 1999 pending ratification of the Europe Agreement.

## *Research and Technological Development*

Slovenia has officially asked to start the negotiations for the full association with the 5<sup>th</sup> Framework Programme in November 1997. Three rounds of exploratory talks aiming at preparing the negotiations have already taken place.

Research is not mentioned as a priority in the National Programme for the Adoption of the *Acquis*.

In an effort to revitalise technological development in the industrial sector and to exploit the potential of national research for economic development, an Innovation Agency was established.

## *Telecommunications*

With respect to its comparative economic development, Slovenia has not yet achieved as much progress as it should in the liberalisation of the telecommunications sector and the harmonisation of legislation.

The implementing measures, needed for the implementation of the Telecommunications Act adopted in May 1997, such as the mutual recognition of conformity of type approval certificates and a comprehensive licensing regime have yet not been adopted. Liberalisation of public voice telephony and of alternative networks for the provision of telecoms services have not been introduced. The establishment of a separate regulatory authority, the decree on licensing regimes, the regulation on type approval and mutual recognition of certification have not been introduced yet. Tariffs have not been re-balanced.

The major achievements to-date have been the liberalisation of terminal equipment and telecommunications services (with the exception of the above). However, the absence of progress on mutual recognition of conformity and type approval means that equipment can only be purchased in Slovenia.

Another achievement during last year has been the liberalisation of the market for the mobile telephony services by granting a second GSM license to the Simobil consortium in October 1998,(25% of the capital of the this concessionaire is foreign capital).

The infrastructure is constantly improving. By the end of 1997, the penetration rate in the telephone service was 35.8%. At the end of 1997 there were 4.4 employees per 1000 lines. The average waiting time for a telephone line improved from 1.8 years (1995) to 1.2 years (1997). As for the economic performance of the public operator Telekom Slovenije, the revenue per lines increased from ECU 344 (1995) to ECU 388 (1997).

There are still insufficient resources in the Ministry of Transport and Telecommunications to tackle the considerable remaining task of legislative harmonisation effectively (both on liberalisation and regulatory functions aspects). Priorities in the Ministry of Transport and Telecommunications as well as the management of the national operator Telekom Slovenije appears to predominantly favour the development of infrastructure and services.

Slovenia's progress in enacting, implementing and enforcing the *acquis communautaire* in the telecommunications sector is proceeding very slowly. Institution building in this sector seems particularly urgent in order to reduce the harmonisation backlog.

The most urgent actions remain the full implementation of the Law on Telecommunications starting with the gradual liberalisation of the voice telephony market for closed user groups and the provision of Internet services by CATV operators.

### *Audio-visual*

Not much progress has been made since the Opinion. Slovene legislation is not compatible with the *acquis*.

The existing administrative structures (the National Broadcasting Council) were in place before 1997. However, the Council has limited powers for effective monitoring: this weakness should be addressed in any new legislation.

Slovenia has recently indicated that it would have problems in harmonising with the quota for European products and works of independent producers in broadcasting programmes in the Audio-visual sector and has asked for a transitional period.

### **Conclusion**

Slovenia continues to support research and technological development activities. Little progress has been made in the telecommunications and audio-visual sectors. Slovenia has requested a two year transition period for fully implementing the television with frontiers directive.

## **3.3. Economic and fiscal affairs**

### *Economic and Monetary Union*

Slovenia has made little additional progress in its preparations for participation in the Economic and Monetary Union.

Slovenia has continued to operate a monetary policy framework, which combines the control of monetary aggregates with a managed float for the exchange rate. This policy is successful for achieving stability and preserving competitiveness. On the other hand, as part of this policy, Slovenia has resorted to capital controls which are an impediment to FDI flows. Restrictions on inflows are still used extensively, even though a number of ad hoc measures taken by the Bank of Slovenia in February 1997 were subsequently relaxed in July of the same year.

The banking sector is not sufficiently open to competitive pressures. An annual interbank agreement for the determination of interest rates has been renewed for the last time this year.

Although the Central Bank benefits from a significant degree of autonomy, Central Bank legislation has not been changed and is still not in line with Community rules.

## *Taxation*

With regard to indirect taxation, Slovenia still applies an ad valorem sales tax system. The introduction of VAT, last planned for 1 January 1999, has again been postponed. The VAT Act is now expected to be adopted by the Parliament in October/November 1998 and to enter into force as of 1 July 1999. The operation of a VAT system is a short term priority of the Accession Partnership.

The proposal for the VAT Act is based on the principles of Community legislation. However, the Act, when adopted will undoubtedly require further amendments as regards the general provisions of the Community VAT legislation.

The Slovene authorities have proposed a general VAT rate of 19% and another of 8% for reduced levels. The first draft of implementation laws are already prepared as well as the VAT return forms. A pilot project on VAT introduction, including training of Tax Administration employees and a public awareness campaign, started in 1997.

The introduction of an Excise Duty system, initially scheduled for 1 January 1999, has also been postponed to 1 July 1999. The draft new law on excise duties is in line with the *acquis*. However, the duty levels might not be compatible with the Community's minimum requirements until 1 July 2005.

### **Conclusion**

No tangible progress in this field has been made since last year. Slovenia has once more postponed the introduction of VAT and an Excise duty system.

## *Statistics*

Slovenia continues to address the remaining weaknesses of its statistical system. Efforts to achieve further alignment are needed in most areas, in particular business and macroeconomic statistics as well as government finance and agriculture. At present, there is no comprehensive structure of business surveys co-ordinated all over sectors.

As regards macro-economic statistics, improvements are needed in the area of data sources, in particular on the quality of accounts, coverage, fixed capital formation and balance sheet accounts. Government finance and especially debt and deficit statistics also require methodological improvement.

The administrative structures needed to implement and enforce the *acquis* are largely in place. However, the co-ordinating role of the Slovene Statistical Office needs to be strengthened and its independence from various institutions (Bank of Slovenia, Institution for payments) assured.

### **3.4. Sectoral Policies**

#### *Industry*

The Slovene authorities have developed an industrial policy strategy based mainly on the stimulation of development of SMEs, the increased use of IT, the improvement of the

business environment, and the training of management. The Slovene authorities recognise the importance of further restructuring and they have developed a restructuring strategy based on company-led self-restructuring. Privatisation is an important element of this strategy. The Slovene Development Fund is now responsible for taking over the main non-privatised enterprises and restructuring and privatising them.

A 'Strategy for Increasing the Competitiveness of Slovene Industry', adopted by the Government in March 1998 is now being implemented.

The main objectives of Slovenia's industrial policy as set out in the policy documents appear to be in line with the EU's approach. However, a number of issues have arisen since the 1997 Opinions, which raise questions concerning the proper implementation of the guiding principles of industrial policy.

Particular industrial problems persist in labour intensive industries, such as textiles, footwear, and steel. Since last year there has already been some progress in the restructuring and privatisation of the steel sector. The Slovene authorities have asked for an extension to the five-year grace period for granting state aid to the sector. In February 1998 the Slovene parliament approved a restructuring programme for the steel industry, which is being analysed by the Commission. Since then a call for offers for privatisation of the steel plants has been published in the international press. The Law on the conclusion of the privatisation process and the Law on Privatisation of the companies owned by the Slovene Development Fund were adopted by Parliament in April 1998. The bills will regulate the final steps in the privatisation of socially owned companies, companies owned by the Slovene Development Fund and property directly or indirectly owned by the State. The slow progress in adopting the *acquis* in free movement of goods prevents economic operators in Slovenia from gaining important experience for operating effectively on the internal market and is thus a significant problem for the improvement of the competitiveness of Slovene industry.

## **Conclusion**

Overall, progress has been made in defining industrial policy strategy but implementation will need to be closely monitored.

## *Agriculture*

### **Agricultural situation**

In 1997, the share of agriculture and forestry in GDP represented 4.5% in value added terms and agricultural employment accounted for 6%, with an annual decline of 0.2% forecast for 1998 and 1999. The food industry represented 5% of the GDP and employed 3% of the working population in 1997.

According to the June 1997 structural survey, there are 91000 agricultural holdings in Slovenia with an average area of 10 ha for family holdings (99% of total holdings) and 390 ha for agricultural enterprises (social owned holdings).

Slovenia's agricultural trade balance is negative. The most important markets for Slovene exports are the EU and the republics of former Yugoslavia, with 35% and 52% respectively in 1997.

Progress in the privatisation of the agriculture processing industry has been limited.

### **Agricultural Policy**

Agricultural prices in Slovenia continue to be generally higher than in other candidate countries and closer to those of the EU. Significant discrepancies exist among products for which market prices are close to or higher than EU prices (bread making wheat, sugar beet, eggs, beef and veal, poultry meat and pigmeat) and products for which market prices are significantly lower than the EU average (maize, milk, apples and pears).

The price support system has been replaced by direct payments per cow in mountainous areas. Direct payments have also been introduced for hops. Wholesale prices were liberalised in April 1998 for fresh pork meat.

As envisaged, the share of the government's budget spent on agriculture has been increased from 2 to 3%. Some new measures in the structure of the budget have been introduced in the course of 1997 such as support for agricultural co-operatives, for phytosanitary services for farmers organisations and for structural measures at the local level. However, the announced introduction of direct payments, such as income aid for farmers, has not yet taken place. However as pre-requisite for the introduction of direct payments is an efficient cadastre and land registration, which still need to be modernised in Slovenia. State monopolies in the sectors of sugar, cereals and oil seeds still exist.

The Slovene food industry faces under-utilisation of its production capacity and will have to adapt to EU standards before accession.

In the veterinary field, the 1994 Slovene veterinary law still needs to be completed by a number of legislative implementing measures. The animal health situation is in general close to the EU's, however, vaccination against classical swine fever and the lack of legislation on feeding waste food to pigs continue to be major obstacles to trade in pigs and non-heated pig-products with the EU.

The HACCP (hazard analysis critical control point) systems are being developed in most of the plants, however they have not been reviewed or approved by the veterinary service.

Currently there is no proper system of animal identification. The veterinary systems for animal identification, registration and movement control have been elaborated as well as an integrated communication network and border inspection posts and implementation just started. The Government has taken a decision to build new infrastructure facilities for future EU Border Inspection Posts along the Croatian border for the veterinary and phytosanitary sector.

There is no significant development as regards the strengthening of rural development policy mainly due to the overlapping of responsibilities and the lack of co-ordination in the execution of rural measures.

Slovenia has not made any notable progress in setting up structures needed for regional and structural policy. More progress needs to be made to ensure a functioning system for land registration.

### **Conclusion**

Further alignment to the *acquis* is still necessary as is adaptation to the policy instruments of the CAP and to specific EU standards in the agri-food sector.

In the veterinary field, legislative measures are still needed to implement the 1994 Veterinary Law. There has not been much progress in implementing the short term Accession Partnership priority of re-inforcing capacity in the veterinary and phyto-sanitary administration. Obstacles to the trade of pigs with the Union should be removed. Efforts to upgrade inspection posts at the external borders are urgently needed, as indicated in the Accession Partnership.

Urgent progress is required to set up the structures needed for implementing structural and rural policies. Particular emphasis should be given to the establishment of a functioning land registry.

### *Fisheries*

No progress has been recorded.

### *Energy*

The Government reorganised the Agency for Commodity Reserves, so that the Department that manages petroleum products reserves is now a financially independent unit. It is unlikely that any of the measures in the National Programme for the Adoption of the *Acquis* foreseen for 1998 and linked to the future Energy Act will be pass Parliament this year.

Prices are still under Government control. Price increases, a basic element for the future functioning of the internal market, have continued, but household prices are not yet at cost levels. A new tariff system should be developed.

The Government has not yet sold its share in the oil and gas companies. *Oil stocks* are now approximately at 40 days of consumption and the necessary legislation to reach (around the year 2005) the EU target of 90 days is still in preparation. Slovenia's energy networks are already well interconnected. There have been some improvements in the infrastructure of the energy sector related to Hydro Power generation plants and some components of a Thermal Power production plant.

A decision was taken on the purchase of new steam generators for the Krsko Nuclear Power Plant. Discussions related to the ownership of the plant are still blocked due to unsolved issues with Croatia. In 1998 a business plan and the modernisation scheme was approved by the Board. However, close monitoring is necessary. The construction of storage capacities for the Krsko Nuclear Power Plant waste is pending and no progress has been made since last year. Payments to be made to the Decommissioning Fund have not reached the expected levels. The Slovene Nuclear Safety Administration has continued a seismic investigation programme of Krsko site using methods comparable with the EU practice.

Slovenia has signed the Joint Convention on the Safety of the Spent Fuel Management and on the Safety of Radioactive Waste Management, which is now in the final stage of

ratification in Parliament. the Efficient Energy Use agency is running programmes and the Energy Saving Fund became operational in 1998.

## Conclusion

Further efforts are still needed to prepare for the internal energy market including the adjustment of monopolies, access to networks, energy pricing, state intervention in the solid fuels sector, emergency preparedness including the building up of mandatory oil stocks, development of energy efficiency and fuel quality standards.

Nuclear safety standards should continue to be handled appropriately, longer term solutions for nuclear waste will have to be found and the independent status of the Safety Authority should be monitored.

It is recommended that a more detailed energy section be developed in the next version of the National Programme for the Adoption of the *Acquis*, ensuring among others that Slovene priorities are linked to individual EU-energy acts.

## *Transport*

The harmonisation of transport legislation is proceeding and Slovenia has already reached a significant level of legislative harmonisation and integration with the EU. Recent measures include:

**Road transport :** A Law on Road Transport, adopted in June 1997, was amended in June 1998 to better define free haulage in road transport.

In June 1998 two Decrees concerning Road users charges were adopted<sup>5</sup>, on the basis of the 1997 Law on Public Roads.

The Government also adopted a Resolution on Slovenia's Transport Policy relating to management of traffic flows and increases in traffic safety.

**Rail Transport :** The EC Directive on the development of Railways<sup>6</sup> has been implemented through a new law on operating and financing transport within the railway network and the re-organisation and ownership restructuring of Slovene Railways. Financing / accounting arrangements have been aligned with EC Regulations. However in the rail transport, Slovenia will need to continue its efforts to upgrade existing legislation to align with EU rules and to complete the restructuring of Slovene Railways.

In maritime transport, Slovenia has already harmonised much of its legislation with EU rules with regard to maritime safety and protection of the marine environment, although further improvements will be necessary. Regarding the legislation regulating free access to the maritime services market, Slovenia is under-regulated and significant efforts will be needed to draft and adopt all the necessary legislation by the time of EU accession. The International Safety Management Code (ISMC) concerning the quality of vessels under the Slovene flag was implemented, together with Port State Control procedures. A new Maritime Code is currently under examination at the Parliament.

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<sup>5</sup> Decree modifying the Decree on Tolls for the Use of specific roads and Decree on Annual Vehicle Excise Duty for Road vehicle users;

<sup>6</sup> Directive 91/440/EC

In air transport further alignment with EU legislation is required. The aviation administration will need to be strengthened to tackle full harmonisation effectively and to ensure effective implementation and enforcement.

Slovenia has heavily invested in infrastructure development in recent years, including 1997-98, with a well-developed motorway building programme, upgrading of road, railway and port infrastructure as well as border-crossing infrastructure along new borders. East-west routes have been the main objective originally. However improving north-south links is becoming a priority, Slovenia has successfully used the Financial Protocol annexed to its Transport Agreement with the EU towards this goal. Slovenia is actively participating in the Transport Infrastructure Needs Assessment (TINA).

## **Conclusion**

The harmonisation of legislation in this sector advances at a satisfactory pace.

More competition is needed in all transport sectors, as well as more effective enforcement of legislation, and the establishment or reinforcement of associated administrative structures.

### *Small and Medium Sized Enterprises*

A new Ministry for Small Enterprises and Tourism was created in October 1997.

Slovenia has adopted a Strategy for the development of small businesses up to the year 2005. The co-ordination of measures between the two Ministries responsible for this area, Small Enterprises and Tourism and Economic Relations, will be crucial for the implementation of the strategy over the coming years.

Some slight differences remain as regards the definition of SME's compared to EU recommendation. Slovenia is actively reducing existing obstacles in the business environment, which for the moment is regulated by a 1994 Law on small businesses. Nevertheless, further measures will need to be taken.

### **3.5. Economic and Social Cohesion**

#### *Employment and Social Affairs*

Unemployment remained at the same level as in 1997.

Some progress has been made in the approximation of health and safety legislation, but adapting existing legislation to EU requirements appears to require more time than new legislation, and in some areas progress has been slow. The implementation capacity of Slovenia in this field needs to be strengthened.

In the field of labour law, it is important that Slovenia adopts a new bill on labour relations, as well as a new law on employment and unemployment insurance. A Law was passed in 1997 to protect employees in the event of insolvency of their employer, in line with the corresponding EC Directive. The Guarantee Fund of the Republic of Slovenia started operating in November 1997.

On equal treatment of men and women, the parental leave Directive has still not been transposed.

As a temporary measure pending adoption of a new law on pension reform an amendment to the existing Law on Pension and Disability Insurance has been adopted by Parliament to safeguard the sustainability of the pension system.

A Law amending the Law on Health Care and Health Insurance was adopted in April 1998 by the Parliament. The Directives on the warning labelling of cigarette packages and the maximum tar content have reportedly been transposed into Slovene legislation.<sup>7</sup>

At national level the tripartite social dialogue functions well and social partner organisations are extensively consulted on relevant new draft legislation. A new framework law on labour relations is still needed.

#### **Conclusion**

Approximation of legislation has advanced only slowly and substantial work remains to be done in this field. There is a need to strengthen the public employment service. The Slovene National Programme for the Adoption of the *Acquis* does not contain sufficient details with regard to the legislative and implementing measures to be taken in the fields of health and safety at work (an important medium term priority in the Accession Partnerships). Institutional, judicial and administrative capacity to implement co-ordination rules in the field of social security of migrant workers will require adaptation of the social security administration and the further training of officials.

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<sup>7</sup> The new Slovene Tobacco Law, harmonised with the corresponding EC Directive, was put into force in November 1996, but this information was not included in the Opinion of July 1997.

## *Regional Policy and Cohesion*

The institutional structure of Slovenia's regional policy remains weak as do financial procedures. It is regrettable that a law on regional development has not yet been adopted. Financial instruments available for regional development initiatives continue to be limited and cofinancing capacity still cannot be assured. Monitoring and control procedures also need to be improved.

### **Conclusion**

Slovenia has achieved limited progress in strengthening its institutional structure and has not met the short term priority of the Accession Partnership in this area.

Efforts need to be speeded up if Slovenia is to be ready to participate in EU structural policy.

## **3.6. Quality of Life and Environment**

### *Environment*

Since 1997 Slovenia has adopted some legal acts concerning waste, wastewater, air and nature protection. Their consistency with the EU environmental *acquis* however, remains to be assessed.

In March 1998, an Environment Accession Strategy was adopted by the Government and annexed to the National Programme for the Adoption of the *Acquis*. An incomplete timetable for transposition of the *acquis* was included. The National Environmental Action Plan has not yet been adopted.

The area of water resources management has been given a different status and a slighting higher financial allocation in the 1998 national budget.

Decrees on waste adopted in 1997 set a methodology for mandatory public services. The Decrees on wastewater are related to : tax returns, periodic and continuous monitoring. Some activities are carried out as far as industrial pollution control and risk management, GMOs, noise and nuclear safety are concerned.

No progress has been made in approximation with the EU radiation protection directives.

Although the revenues from enforcement of this part of the legislation have increased during the last years, there are still problems of implementation. This is partially due to the fact that there is a serious lack of staff employed by the Ministry of Environment and Physical Planning and related bodies, i.e. including the inspectorates. Substantial investment will be needed in this sector in close cooperation with the International Financial Institutions.

## **Conclusion**

Despite some progress in the adoption of framework legislation, more legislative work has to be undertaken to comply with the short-term priorities within the Accession Partnership.

The development of the necessary instruments (financial, administrative, etc.) for the full implementation of the legal provisions appears to be one of the major tasks ahead. Despite the sound plans for the full approximation to the EU environmental *acquis*, Slovenia has so far failed to transpose these plans into practice. This is partially due to the difficulties related to the serious lack of staff in the Ministry of Environment and Physical Planning and related bodies. Efforts have to be made to move from the strategic into the operational level. Therefore while areas such as waste management, waste water and water protection remain problematic, greater concerns are raised by the lack of implementation and enforcement of the existing legislation.

The National Programme for the Adoption of the *Acquis*, including the Environmental Strategy, does not fully respond to the priorities of the Accession Partnership. For many sectors there are no dates for approximation and the document is also weak on administrative implications.

### *Consumer Protection*

A Consumer Protection Act entered into force in March 1998 and an Office for Consumer Protection has been set up in the Ministry for Economic Relations and Development. This Law lays down the general principle of consumer protection but is not fully in line with the *acquis* and will need to be complemented by a series of Government provisions.

There is still no legislation regarding general product safety (including Dangerous Imitations), Comparative Advertising, Distance Selling in general and Price Indications. The existing legislation concerning Misleading Advertising, Doorstep Sales, Consumer Credit, Unfair Terms, Distance Selling (mail-order sales) and Product Liability remains not in compliance with Community legislation.

Considerable work needs to be done to ensure transposition of the *acquis*. Administrative structures need to be improved with respect to market surveillance in the field of Price Indications and Consumer Credit. The Slovene Consumers' Association still plays a strong role in this field. However the development of other consumer movements is still limited and should be encouraged.

## **3.7. Justice and Home Affairs**

In its July 1997 Opinion, the Commission had underlined the need for Slovenia to give priority to adopting international conventions (particularly in the field of criminal law), reinforcing the judicial machinery and the institutions combating organised crime and adjusting the legislation covering the right to asylum.

### *Immigration / Border control*

The main development was the conclusion of new readmission agreements with Denmark (August 1997) and Estonia (November 1997). Practical problems remain with the carrying out of deportations, however. In that connection, changes need to be made to staff numbers and staff training. In December 1997, new legislation on national identity documents came into being. This made them harder to forge and made provision for entries in Slovene to be supplemented by the other national languages in the regions concerned, plus an English translation.

In the short term, legislation on foreign nationals is indispensable and border controls must be improved. This raises the issue of determining the border with Croatia, an important matter in that it will be an external frontier of the Union. This concern derives from the fact that Slovenia, having lifted its geographical reservation, is becoming a transit country for illegal immigrants, mainly from Croatia and Hungary; it would therefore be desirable to set up programmes to assist return.

### *Asylum*

No substantial development of the situation has been detected. There is an urgent need for the asylum bill to be adopted (this includes provisions on the temporary protection of displaced persons). Beyond that, effort needs to be put into training specialist staff to remedy the present lack of experience, even though asylum requests are few.

### *Police*

New police legislation was adopted in July 1998. This provides for a change to the interior ministry's structure and the introduction of up-to-date management methods. On 23 April 1998, the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (Council of Europe, 8 November 1990) was ratified.

In the short term, Slovenia needs to focus on reinforcing the structures responsible for combating organised crime (with special emphasis on training specialist staff), and on ratifying the 1977 Council of Europe Convention on the Suppression of Terrorism.

### *Drugs*

In addition to the issue of ratifying the main relevant international instruments, Slovenia is faced with having no law on narcotics and psychotropic substances (needed to bring its legislation into line with the EU's standards) and no law on chemical precursors. The fact that Slovenia is having to cope with drug problems and more frequently increases the need for rapid action both in setting out a legal framework and in taking steps to restrict local output and trafficking.

During the last year, budget funds have been put into the administrative structures responsible for combating the drug problem. With the prospect of Slovenia's participation in the activities of the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) in Lisbon, the "contact point" in the national drugs information system needs to be strengthened.

### *Judicial cooperation*

The European Convention on Mutual Assistance in Criminal Matters (Council of Europe, 1959) has not yet been ratified.

## **Conclusion**

Beyond measures connected with the police, Slovenia has taken few significant steps since July 1997. If it is to attain the medium-term objectives set in the Accession Partnership, it needs to make a substantial effort in the following areas :

- legislative policy, from the point of view both of international instruments (e.g. Convention on the Suppression of Terrorism) and of making adjustments to domestic laws (e.g. asylum and drugs);
- stepping up training to enable staff to cope with enforcing new legislation, particularly that dealing with foreign nationals.

## **3.8. External Policies**

### *Trade and International Economic Relations*

In line with commitments under the CEFTA Agreement, Slovenia has further opened up the market for agricultural products. For the first time Slovenia has used the safeguard clause in July 1998 against the import of Hungarian wheat.

It continues to request export and import licenses for certain products such as gold and precious stones as foreseen by the Law on Foreign Trade.

Slovenia has signed Free Trade Agreements (FTA) with Croatia, Israel and Turkey in conformity with the provisions of the World Trade Organisation. The FTA with Croatia is provisionally applied since 1 January 1998, and with Israel from 1 September 1998. The FTA with Turkey was signed on 5 May 1998. Once the Free Trade Agreement with Turkey enters into force Slovenia will apply quantitative restrictions in the textile sector until 2001.

Slovenia has expressed its wish to maintain the preferential commercial treatment currently given to some of the countries of former Socialist Federal Republic of Yugoslavia, in particular to Bosnia Herzegovina, FYROM and Croatia.

### *Development*

No developments have been reported since the publication of the Opinion.

## *Customs*

Regrettably Slovenia has not complied with the Customs Cooperation Council Recommendation to abolish tax free shops at land borders by 1 July 1998<sup>8</sup>, but has expressed readiness to prepare a programme for the phasing out of the tax free shops at land border crossings with the EU Member States from 1 July 1999.

A law on Economic Zones was adopted in May 1998. The law concerns the upgrading of existing free zones by providing extra tax concessions to economic zone users. This law is not compatible with the customs *acquis*.

The national nomenclature of goods is now in line with the Community's Combined Nomenclature, and an Integrated Tariff is already implemented. There is still a delay concerning legislation on counterfeit and pirated goods.

It is important that the 1996 customs law, be amended in order to review the implementation of customs procedures with economic impact and payment of duties.

As recommended by the Opinion, improvements have been made to the customs computerised systems, in particular to the National Transit System.

### **Conclusion**

Slovenia continues the process of organising its customs administration and aligning its legislation with Community rules. Efforts are needed to ensure full compatibility of the national customs legislation with the *acquis*, particularly for the customs regimes with economic impact.

## *Common Foreign and Security Policy*

Slovenia has continued to demonstrate its full commitment in pursuit of the objectives of CFSP. Slovenia joined all common positions and declarations of CFSP which it has been invited to join<sup>9</sup>. Slovenia has continued to participate actively in the multilateral political dialogue within the framework of the CSFP. It participates in the regular meetings of political directors, European and associate European correspondents and in CFSP working groups.

In view of its foreign policy priority to join NATO, the Government adopted a 'National Strategy for Integration into NATO on 26 February 1998 and the Military Defence Strategy on 14 May 1998. The Slovene armed forces are being reformed in line with these strategies.

Slovenia was elected as a non permanent member of the UN Security Council for the period January 1998 to December 1999. The Government has taken on increased responsibilities as regards participation in international peacekeeping and humanitarian

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<sup>8</sup> As stated in the Joint Declaration concerning Article 37 and 94 of the Interim and Europe Agreement respectively.

<sup>9</sup> Slovenia was not invited to join EU common positions on Croatia because Croatia is an neighbouring country.

missions. The Slovene army participates in the UNFICYP peacekeeping mission in Cyprus within the Austrian contingent since October 1997. It started to join SFOR troops in November 1997 and participated in the Alba operation in 1997.

Outstanding problems with Croatia still need to be solved. Despite the Government's efforts to strengthen relations with Croatia, no concrete solutions have yet been found regarding the maritime border in Piran Bay, property issues, the management of the Krško Nuclear Power Plant and banking claims.

The Government is seeking to develop relations with South-Eastern Europe to strengthen its role in the region and pursued increased efforts to engage in a more active regional cooperation. Slovenia participates in the Royaumont initiatives and in SECI project groups. It has taken a more active role in supporting stability in the region, in particular in Bosnia and Herzegovina. Slovenia decided to set up an International Trust Fund for Demining and Mine Victims Assistance in Bosnia and Herzegovina.

Slovenia has continued to make progress in its alignment with the CFSP *acquis*.

### **3.9. Financial Questions**

#### *Financial Control*

With regard to external financial control, there is a clear lack of adequate standards and norms in public expenditure management at all levels and the budgetary procedures are not sufficiently regulated. Therefore, the design of the role and mandate of the National Court of Audit (legal status, strategy) needs to be revised, and its audits methods and practices to be further developed.

With regard to the internal financial control, the Department for Budget Inspection should prepare a strategy for the development of an independent internal financial control system. Adequate staffing need to be ensured. An administrative cooperation arrangement between the Ministry of Finance and the Commission will provide (September 1998), cooperation measures on public internal control matters and will support preparations for membership.

#### **Conclusion**

No major progress can be reported. Although some initial steps have been taken to meet the short-term priorities of the Accession Partnership, major efforts are still needed to upgrade the financial control and audit functions and the professional level of the necessary staff in the perspective of the management of pre-accession funds and Structural Funds.

### **3.10 General Evaluation**

Slovenia has not sufficiently progressed in its overall approximation effort. Key parts of internal market legislation are missing. Slovenia has not made sufficient progress in tackling key issues such as the abolition of duty free shops and the timely introduction of VAT and excise legislation.

The lack of momentum in the approximation and administrative capacity building process is evident in the area of justice and home affairs.

With the exception of the economic reform priority, Slovenia has not adequately addressed the short term Accession Partnership priorities.

## **4. Administrative capacity to apply the *acquis***

This chapter updates the information given in the Opinion. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

In this year's report the Commission has worked with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on whether these bodies have sufficient legal powers to implement the *acquis*, on staffing levels and on staff qualifications and on budget availability. In some cases it is already possible to give information on the quality of decisions being taken. The Commission intends to further develop this aspect in future reports.

In its Opinion the Commission concluded that : 'further administrative reform will be indispensable if Slovenia is to have the structures to apply and enforce the *acquis* effectively'.

### **4.1 Administrative Structures and Capacity**

The Commission's Opinion pointed to widespread shortages of staff in public administration in Slovenia, especially at middle and senior management levels, as well as the need to further develop administrative skills. In the meantime, the civil service has expanded.

The Opinion also stressed the importance of decentralisation. An amendment to the Law on Local Self Government was adopted in October 1997, and the debate over the issue of decentralisation has been launched.

In general, there remains clear scope for improvement of the efficiency and effectiveness of public administration..

## 4.2 Administrative and Judicial Structures and Capacity : Key areas for the implementation of the *acquis*.

**The uniform application of EC Law:** the body responsible for checking conformity with the *acquis* is the Office for Legislation (OFL). The fulfilment of this task by the OFL is being undermined by a serious lack of personnel. The function of co-ordinating the EU accession process belongs to the *Government's Office for European Affairs*, while the responsibility for drafting individual legislative acts falls to the line ministries.

Human resources constraints in Slovenia's judicial system limit its ability to apply the *acquis* effectively . The training of judges in EC law will require a restructuring of the training system and an important investment in the development of the capacity of the judicial system.

**Single Market :**The Slovene Standards and Metrology Institute (SMIS) is established within the Ministry of Science and Technology. The legal basis is the Law on Organisation and Working Areas of Ministries (1994).

The Institute employs 85 persons and has primarily a technical function coordinating the operations of other technical facilities in this field . Staffing levels remain below the required level in several key areas for harmonisation and implementation of the *Acquis*.

The SMIS is a Government linked agency (accountable to the Ministry of Science and Technology) entrusted with both standardisation, technical regulation in the field of legal metrology, certification and accreditation. The SMIS also has the overall role of co-ordinator for harmonisation of the Slovene technical regulations with the relevant areas of the *acquis* and providing technical support to the sectoral ministries.

Further work is required to bring the operation of the technical laboratories up to the necessary EU standards (both in terms of equipment and training of staff).

The Office for Intellectual Property (OIP) is established within the Ministry of Science and Technology. The Office employs 55 staff, which is considered adequate for implementing the *acquis* in this area.

The legal basis for the work of the Office is the Law on Organisation and Working Areas of Ministries, the Law on Industrial Property (1992/1993) and the Law on the Protection of Intellectual Property/copyright (1995). The OIP is mandated to perform duties related to the protection of intellectual property and protection of copyright.

The role of enforcing the legislation is principally dependent on the work of the judiciary, the District Court of Ljubljana being the sole court mandated in this field.

The Office has played an effective role in harmonising the relevant areas of legislation and appears to have the capacity to effectively implement the *acquis*. The main issue now is the need for the Office to be reinforced.

The legal basis for Public Procurement is the Law on Organisation and Working Areas of Ministries and the Law on Public Procurement (1997). The institution responsible for public procurement is the Ministry of Finance. A number of implementing regulations have been adopted, but the revision of the Procurement Act is still under discussion.

Overall responsibility for approximating and implementing legislation will remain with the Public Procurement Unit within the Ministry of Finance and the relevant departments within each sectoral ministry.

It is intended that overall supervision of procurement procedures will remain with Ministry of Finance although it is not clear how the issue of sectoral specific directives e.g. telecommunications will be dealt with in terms of legislation or implementation. Further clarification is required on the roles and responsibilities of the respective ministries. Further clarification is also necessary on the question of how appeals from contractors will be handled.

The Audit Commission for Public Procurement (operational in 1998) protects bidders in public procurement procedures. According to the law, the Commission is an independent professional body with the right to suspend tender decisions. Protection is also guaranteed by judicial procedures, under a new law on enforcement and insurance, which provides the possibility to suspend procedures and the conclusion of a contract by judicial act. The President and 10 Members of the Commission were appointed by a Parliamentary Decree using the same procedures for the appointment of judges.

At this stage staffing levels are clearly insufficient. Significant training will also be required within the sectoral ministries for staff involved in executing the new procurement procedures.

Little progress has been made in the Single Market area during the last year. Staff levels are below those needed to ensure the implementation and enforcement of the *acquis* and there is a widespread need for training. Further structural change is needed which will require the availability of sufficient qualified personnel.

**Competition :** The Slovene Competition Protection Office was created in 1994 and is established within the Ministry of Economic Relations and Development.

The Opinion noted that as of 1997 staffing and technical qualifications were inadequate to ensure effective implementation of the *Acquis* in the crucial areas of competition law, anti trust and state aid monitoring responsibilities. Little has changed. The Office can expect some increase of its staff before the end of the year (to bring the total number of staff to 6 which is clearly insufficient.)

The legal basis is the Law on Organisation and Working Areas of Ministries and the Law on the Protection of Competition (1993). Decrees by the Competition Protection Bureau are final and no appeal procedure is provided for except through court procedures. There is still no state aid monitoring authority in operation. However, the Government decided on 10 October 1998 to establish a State Aid Monitoring Commission.

**Telecommunications :** The Telecommunications Administration is established within the Ministry of Transport and Telecommunications. The regulator is separated from the operator (Telekom Slovenije), as recommended in the Opinion but is not yet separate from the Ministry.

The number of staff is between 30-35, having increased from 8 in 1997. The legal basis for the regulator is the Law on Organisation of Government and Ministries, and the Law on Telecommunications. In the last twelve months the regulator has prepared several by-laws based on the Law on Telecommunications .

**Indirect taxation :** The Opinion pointed out the need to consolidate professional standards, including training and improvements in pay. The Government is carrying out a programme of measures for the introduction of VAT (1 July 1999) that includes institutional reinforcement and preparation.

**Agriculture :** The State Veterinary Service (the Veterinary Administration of the Republic of Slovenia) is a body of the Ministry of Agriculture with full competence to cover the EU veterinary *acquis*.

The headquarters in Ljubljana is headed by a chief veterinary officer, has six departments and directs 12 regional and also 37 district offices. Eight Border Inspection Posts (BIPS) with 24 border stations are attached directly to headquarters.

The total number of state veterinary officers is 117 at present (in 1997 it was 116). The duties of the state laboratories are performed by the veterinary faculty, but under the direction of the State Veterinary Administration. Seven regional laboratories complete the diagnostic capacity. The State Veterinary Administration is responsible for the national animal health centre with nine regional units. The animal health centres carry out secondary veterinary services, involving monitoring and inspection as well as registering animals and establishments and also slaughterhouse inspections.

The legal basis is a 1994 law which laid down the basic rules for the organisation of the state sector as well as of the private veterinary sector, including all aspects of animal health and welfare and public veterinary health.

The Slovene veterinary framework act still needs to be completed by a number of legislative implementing measures. The current administrative structures still need to be strengthened in order to carry out the administration of CAP requirements.

There are no inspection and storage facilities for the veterinary and phyto sanitary inspections to be carried out at the international border crossings with the Republic of Croatia at Obrezje, Gruškovje and Jelšane. Systems that have been elaborated but need implementation are: animal identification, registration and movement control; an integrated computerised communication network, and inspection, physical examination and storage at those BIPs which will remain following accession.

**Employment and social policy :** The principal institutions in the area of occupational health and safety are the Office for Safety and Health at Work (under the competence of the Ministry of Labour, Family and Social Affairs, MOLFSA) and the Labour Inspectorate (also under the competence of MOLFSA).

The Office for Health and Safety at Work was established in October 1995 and has four members of staff. Its legal basis is the law on Organisation and Areas of Work of the Ministries, which was adopted by Parliament in 1994.

The Labour Inspectorate was created in 1994. The Inspectorate is an independent body within the Ministry of Labour, Family and Social Affairs with its own sub-budget, and it employs 95 persons of which 74 are inspectors.

Both institutions, but in particular the Office for Occupational Safety and Health, need reinforcement of staff, resources and expertise in order to fulfil their tasks properly.

**Regional policy and cohesion :** The institutional, administrative and budgetary framework has not yet been defined. Significant work will still be necessary to clarify roles and responsibilities in the definition and implementation of integrated regional development programmes.

**Environment :** The planned reform and consolidation of inspectorates and of the enforcement system in general has not taken place. Urgent action is needed as the low level of enforcement is a key problem in Slovenia. This is partially due to the difficulties related to the serious lack of staff in the Ministry of Environment and Physical Planning and related bodies.

**Consumer protection :** The Opinion noted the lack of staff, organisational problems and the need to improve the awareness of the judiciary in this area. The enactment of the Law on Consumer Protection is a positive step, but further legislation will be needed to meet EU standards. A national Office for Consumer Protection has been set up within the Ministry of Economic Relations and Development, but its capacity to develop and implement policy needs to be strengthened.

**Justice and Home Affairs :** The judiciary will require greater investment for an effective application of the *acquis*. Many posts of judges and public prosecutors remain vacant. The courts suffer from insufficient staff, as does the Ministry of Justice. Efforts are being made to alleviate the situation, by amending the law on the State legal exam, which will ease conditions for hiring staff. The Parliament has also adopted provisional measures (in force until 31 December 1999) designed to ensure more efficient judicial protection in district courts, by lowering the required age for judges and thus increasing the number of available judges.

The total number of judicial posts has increased from 714 in 1997 to 759 in 1998. Furthermore, the number of judges has increased from 631 in 1997 to 657 in 1998. The elimination of backlogs has been addressed by long and short term measures agreed between the Ministry of Justice, the Supreme Court and the Judicial Council.

Legislative measures are also being taken to increase the efficiency of the judiciary. A new law on Execution and Guarantees was adopted in July 1998. The Law on Civil Procedure (which includes several measures to speed up and rationalise court procedures) and the Law on Criminal Procedures have been submitted to Parliament.

In Home Affairs, the capacity to handle asylum and migration questions is still not assured, since the new asylum law is still being prepared. However, there are few applications for asylum. The capacity to handle the *acquis* regarding visas will require some improvements. The situation in border control and border surveillance, which was already considered adequate, is unchanged. However, there is still some room for improvement in the areas of Schengen visa policy and regarding expulsion.

**Customs :** The Customs service is being re-organised. New organisational units have been created, with new staff (e.g. a new Investigation Unit, 8 employees). Unification of records is being carried out, as well as establishing the possibility of up-dated monitoring of the customs debt payments, in order to ensure a more efficient collection of customs debt. Training has also been carried out, and new working methods introduced. Furthermore, the Southern border needs to be strengthened, with appropriate organisational, professional, staffing and technical conditions to ensure more strict control.

**Financial control :** Financial control in Slovenia is dealt with by 3 institutions: the National Court of Audit, the Budgetary Control Department at the Ministry of Finance and the Parliamentary Budget and Other Public Finance Audit Committee.

The National Court of Audit was established in December 1994. It is the supreme control body of the State. It is independent of the Government and of Parliament and acts as an external control body. It has no judicial power but has the power to require repayment of public funds. In 1994, the Parliament nominated 8 of the 9 members of the Court. There are currently 75 employees. This number is expected to be increased up to 100 by the end of 1998 and up to 120 by the year 2000.

The effectiveness of the Court has been impaired by a lack of audit skills. In this respect there has been little progress since July 1997. Even if it is empowered to conduct several types of audits, the Court has mainly restricted its action to financial and regulatory audits. More staff and more training are needed to compensate for the lack of qualified auditors. The procedural system for reporting should be more efficient and pragmatic.

A further issue is a relative lack of internal co-ordination among the Members of the Court of Audit. The Budget Committee of the Parliament has requested the Court's President to present (legislative) proposals for solving this matter.

The Budgetary Control Department within the Ministry of Finance is the internal control body. The legal basis for this control is by the Budget Implementation Act and two implementation regulations : Rules of Procedures for Payments from the Budget and, Instructions on Budget Implementation. The Department has 8 inspectors. Only 8 to 10% of the National Budget can therefore be controlled. There is an obvious need for more trained and qualified staff. In the present situation, the Department's action is restricted to general supervision.

Some of the budget users such as the National Assembly, the Ministry of Defence and the Ministry of Interior have their own accounting and accounting methods. A unified accounting method is needed.

The National Assembly has established an autonomous working body : the Parliamentary Budget and Other Public Finance Audit Committee. This Committee monitors and supervises budgetary and public expenditures. The Committee was created in 1990 and is composed of 14 members of Parliament. Its current mandate is from 1997 to 2000.

The role of the Committee should be enhanced by an amendment to the Rules of Procedures of the National Assembly. The Committee needs a more independent role in discussing public finance expenditure and its decisions need to be binding on users of budgetary funds, including Government.

There is a lack of relevant regulations to define of budgetary procedures, a lack of adequate standards and norms in public expenditure management and difficulties in the communication between the Government and the sectoral ministries.

Training and revision of existing regulations are needed to reach an efficient financial control which could cope with the rules governing the use of structural funds.

Major efforts are still needed in order to ensure separation between external and internal control and to handle transnational financial crime. Substantial efforts are still needed to establish the necessary management and control mechanisms to cope with EC

requirements. There is still no central authority responsible for fighting against fraud. The 1998 National Programme for the Adoption of the *Acquis* did not contain detailed plans or a time frame in this area.

### **4.3 Twinning**

In order to help candidate countries meet the challenge of strengthening their administrative capacity and adapting their administrations to implement the *acquis* the Commission and the Member States are developing a process of twinning under the Phare programme. In the EU the *acquis* is implemented in the Member States by national administrations (at central, regional and local level) and by agencies, professional bodies and the private sector. This vast body of administrative and technical expertise is now being made available to the candidate countries. Initially twinning will cover four sectors – agriculture, environment, finance and justice and home affairs but will gradually be extended to the whole of the *acquis*.

Slovenia is participating actively in twinning.

### **4.4 General Evaluation**

Slovenia has made little progress since the Opinion in general public administration and judicial reform. The measures taken to enhance administrative capacity vary between sectors. While there has been some progress in the process of institutional consolidation in employment and social affairs, agriculture, customs and environment areas, concerted efforts still need to be made in the internal market, taxation, state aids and justice and home affairs areas. There is a general need for clarification in the scope of responsibilities of the various administrative structures and for more and better qualified staff.

## C. Conclusion

Slovenia continues to fulfil the political Copenhagen criteria. Continuing attention needs to be paid to streamlining the judicial and the parliamentary process and to ensuring that Europe Agreement obligations as concerns property ownership are met.

Slovenia can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that planned reforms are fully implemented on time.

Provided that the process of approximation and institution building accelerates so as to make up for the lack of progress this year, Slovenia will be able to assume the obligations of membership in the medium term. Efforts are needed in the area of internal market, especially VAT, state aids control, and justice and home affairs.

## D. Accession Partnership and National Programme for the Adoption of the *Acquis* : global assessment of implementation

The purpose of the Accession Partnership is to set out in a single framework the priority areas for further work identified in the Commission's Opinions, the financial means available to help the candidate countries implement these priorities and the conditions which will apply to that assistance. Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis* setting out how it would deal with the Accession Partnership, the timetable for implementing its priorities and outlining human and financial resource implications. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

### 1. Accession Partnership : Assessment of short term priorities.

The Accession Partnership sets out the following short term priorities for Slovenia.

- **Economic reform** : establishment of medium-term economic policy priorities and joint assessment within the framework of the Interim/ Cooperation agreement; action on market-driven restructuring in the enterprise, finance and banking sectors and preparation of pension reform.
- **Reinforcement of institutional and administrative capacity** : in particular introduction of civil service act, improvements in the areas of the judiciary, of land registration, phytosanitary and veterinary administration, particularly as regards facilities at the external borders, financial control and audit functions, institutional strengthening in the area of environment, being to set up structures needed for regional and structural policy.
- **Internal Market** : including alignment in the areas of indirect taxation, intellectual and industrial property, adoption of VAT law and preparation for implementation in 1999, standardisation and certification (conformity assessment), technical regulations,

and of company legislation and liberalisation of capital movements (in particular currency legislation), establishment of a state aid monitoring authority, a first aid inventory and the creation of a legal framework for state aid control, progress towards adoption of an anti trust law.

- **Property law** : further clarification of the situation pertaining to property legislation with particular regard to the right to purchase property for EU citizens.
- **Environment** : continue transposition of framework legislation, finalising the detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.

**Progress concerning the short term priorities of the Accession Partnership can be summarised as follows:**

**Economic reform** : concerning the establishment of medium-term economic policy priorities, the Government adopted the Joint Assessment on 1 October 1998. Little progress has been made in consolidation and privatisation of the banking and insurance sectors. Supervisory capacity, notably with regard to insurance markets, still needs to be strengthened. The new banking Act is not yet adopted. The preparation of pension reform has advanced with the adoption in 1997 of the White Paper and with the submission in August 1998 of a draft law to Parliament.

**Reinforcement of the institutional and administrative capacity** : the introduction of a Civil Service Act has been postponed. There have been some only minor improvements the judiciary. The backlog in the courts, limitations of staff and training in EC law still have to be addressed in a systematic way. The new Penal Code and the new Penal Proceedings Act have been submitted to Parliament but have not yet been.

There has been no concrete improvements in the area of land registration.

Regarding the phytosanitary and veterinary administration, particularly as regards facilities at the external borders, the Government adopted a Resolution providing for phytosanitary and veterinary inspection and control at the international road border crossings with the Republic of Croatia at Obreje, Gruskoje and Jelsane. No other developments have been reported

No improvements have been reported also in the area of financial control and audit functions.

Regarding the institutional strengthening in the area of environment, there are still serious difficulties related to the lack of staff at the Ministry of Environment and Physical Planning and related bodies, including the inspectorates. A new Department for water was established in September 1997, covering bilateral cooperation and conventions.

The setting up of the structures needed for regional and structural policy has been limited to the drafting of the Act on Regional policy, which is still before Parliament.

**Internal Market** : the draft laws on Excise duties and on VAT have still not been adopted by Parliament. Some decisions have been taken on organisational matters related to the preparation of the introduction of VAT in Slovenia.

There has been no progress in the alignment in the area of standardisation and certification, nor in alignment in the area of technical regulations and company legislation. Regarding liberalisation of capital movements, alignment is still hindered by the restrictive measures imposed by the Bank of Slovenia, although some restrictions were partially eased in 1998.

There has been progress in the establishment of a state aid monitoring authority: the Government decision was taken on 10 October and the nomination of its members should follow before the end of 1998. However, there is no legal basis for state aid control and a state aid inventory has not been prepared. There has been no progress on the adoption of an anti-trust law.

Regarding the clarification of the situation pertaining to property legislation, on October 1 the Government submitted to the Parliament the draft law on conditions applying to the Acquisition of Property Rights of Foreigners. The implementation of Paragraph 2 of Annex XIII of the Europe Agreement will be done on the basis of the Instructions of the Ministry of the Interior regarding the ascertaining of the three year permanent residence in the Republic of Slovenia, and under condition of reciprocity. However the application of the condition of reciprocity has not yet been clarified.

In the field of environment, some legislative progress has been made. Nevertheless, the National Environment Action Plan is still not yet adopted. Implementation has continued in the field of urban air quality programmes.

With the exception of some progress made in the economic reform area in terms of the establishment of medium term economic priorities and pension reform and in the environmental sector, Slovenia has not adequately addressed the short term Accession Partnership priorities. In regard to institutional and administrative capacity, the introduction of civil service legislation has been postponed and little progress has been registered in the areas of land registration, financial control and regional policies. Important internal market legislation (VAT, excise, standards and certification) has not been adopted.

## **2. National Programme for the Adoption of the *Acquis* Assessment**

The National Programme for the Adoption of the *Acquis* (NPAA) for Slovenia was presented on 30 March 1998.

The Slovene National Programme for the Adoption of the *Acquis* is a comprehensive and well prepared document. Nevertheless, it was restricted to the short-term (1998), and the quality is inconsistent between chapters. The National Programme for the Adoption of the *Acquis* did not adequately address the areas of industry; telecommunications and postal sector, anti-trust and state aid control, agriculture, market surveillance, commercial agents and financial control.

The National Programme for the Adoption of the *Acquis* priorities are coherent with the priorities set out in the Accession Partnership. However, the fact that the National Programme focuses on short-term priorities means that the medium term priorities of the Accession Partnership are not considered in this document. Even in the fields where the priorities were reflected, there were important gaps in the information available, specifically regarding the linkage to community legislation and the implementation aspects.

In terms of scope, the Slovene National Programme for the Adoption of the *Acquis* did not fully cover the *acquis communautaire*. Indeed, in most areas the information included was incomplete, and only in a very few cases can it be said to cover the whole *acquis* in a given area.

In most cases, it was difficult to assess if the dates given were realistic or not. In some areas the time-table needs to be accelerated. In other cases, the time-table appeared too optimistic or overly ambitious (environment, consumer policy, regional policy, state aids). Not all measures included information on the timescale foreseen, nor on the sequencing between acts.

The National Programme for the Adoption of the *Acquis* included, information on implementation structures in some areas. Nevertheless, in most fields it was felt that not enough information was given on the implementation structures. When given, this information was too general to allow a proper assessment of its relevance and adequacy. In other cases, provision was made for the establishment of implementation structures, but the way in which this is to be achieved remains unclear.

In general it can be said that the National Programme for the Adoption of the *Acquis* offered a very limited basis for identification of institution building needs. Some indications were given on training needs but in most areas the document was too vague to guide the definition of concrete actions in institution building and weak in assessing the administrative implications of the different acts.

Budgetary provisions were included for some of the measures relating to the implementation of the *acquis*. Sometimes, references were made to Phare but without giving any precise amounts. The references to the national budget were in fairly specific, even if in some sectors (environment) a directive-specific approach would have been preferable.

The Slovene Government is revising the National Programme for the Adoption of the *Acquis*. On the basis of that revision, the Commission will take a position which it will communicate to the Council during the second semester of 1999, at the time of the re-examination of the Accession Partnership.

## **Annex**

### Statistical Data

## STATISTICAL DATA

|  | 1993                            | 1994         | 1995         | 1996         | 1997         |
|--|---------------------------------|--------------|--------------|--------------|--------------|
| Basic data   | in 1000                         |              |              |              |              |
| <b>Population (end of period)</b>                                | 1989                            | 1989         | <b>1990</b>  | <b>1987</b>  | <b>1985</b>  |
|  | in 1000 hectares                |              |              |              |              |
| <b>Total Area</b>  | <b>2025</b>                     | <b>2025</b>  | <b>2025</b>  | <b>2027</b>  | <b>2027</b>  |
| National Accounts  | in Bn Tolar                     |              |              |              |              |
| <b>Gross Domestic Product at current prices</b>                  | 1435.1                          | 1853.0       | 2221.5       | 2552.7       | 2906.7       |
|  | in Bn ECU                       |              |              |              |              |
| <b>Gross Domestic Product at current prices</b>                  | <b>10.8</b>                     | <b>12.1</b>  | <b>14.3</b>  | <b>14.9</b>  | <b>16.1</b>  |
|  | in ECU per capita               |              |              |              |              |
| <b>Gross Domestic Product at current prices</b>                  | <b>5400</b>                     | <b>6100</b>  | <b>7200</b>  | <b>7500</b>  | <b>8100</b>  |
| Structure of Production  | in % of Total Gross Value Added |              |              |              |              |
| - Agriculture  | 5.1                             | 4.5          | 4.5          | 4.4          | :            |
| - Industry   | 33.4                            | 34.7         | 32.6         | 32.0         | :            |
| - Construction   | 4.7                             | 4.7          | 5.0          | 5.6          | :            |
| - Services   | 56.8                            | 56.1         | 57.9         | 58.0         | :            |
| Structure of expenditure   | as % of Gross Domestic Product  |              |              |              |              |
| - Final consumption expenditure                                  | :                               | :            | 78.1         | 77.5         | :            |
| - household and NPISH  | :                               | :            | 57.9         | 57.3         | :            |
| - general government   | :                               | :            | 20.2         | 20.1         | :            |
| - Gross fixed capital formation                                  | :                               | :            | 21.2         | 22.5         | :            |
| - Exports of goods and services                                  | :                               | :            | 54.2         | 54.3         | :            |
| - Imports of goods and services                                  | :                               | :            | 55.5         | 55.2         | :            |
|  | % change over the previous year |              |              |              |              |
| <b>Gross Domestic Product</b>                                    | <b>2.8</b>                      | <b>5.3</b>   | <b>4.1</b>   | <b>3.1</b>   | <b>3.8</b>   |
|  | in Purchasing Power parities    |              |              |              |              |
| <b>Gross Domestic Product per capita</b>                         | <b>9900</b>                     | <b>10700</b> | <b>11300</b> | <b>12200</b> | <b>13000</b> |
| Inflation rate   | % change over the previous year |              |              |              |              |
| <b>Retail Price Index (official indicator of inflation rate)</b> | 32.3                            | 19.8         | 12.6         | 9.7          | :            |
| Balance of payments  | in millions of ECU              |              |              |              |              |
| -Exports of goods  | 5195                            | 5742         | 6384         | 6592         | 7413         |
| -Imports of goods  | 5326                            | 6026         | 7114         | 7286         | 8094         |
| -Trade balance   | -132                            | -284         | -730         | -694         | -680         |
| -Services, net   | 320                             | 568          | 483          | 555          | 520          |
| -Income, net   | -44                             | 142          | 160          | 122          | 115          |
| -Net current transfers   | 19                              | 78           | 69           | 49           | 77           |
| -of which government transfers                                   | -50                             | -92          | -63          | -62          | -58          |
| -Current account balance   | 163                             | 504          | -18          | 31           | 32           |
| -Reserve assets (incl. gold)                                     | 706                             | 1219         | 1386         | 1834         | 3002         |
| -Reserve assets (excl. gold)                                     | 706                             | 1219         | 1385         | 1834         | 3002         |
| Public Finance   | in % of Gross Domestic Product  |              |              |              |              |

|  |   |             |             |             |             |
|--|---|-------------|-------------|-------------|-------------|
| <b>General Government Deficit/Surplus</b>        | 0.4   | -0.3        | -0.3        | 0.1         | -1.5        |
| <b>Gross foreign debt</b>                        | :   | 10.8        | 10.9        | 16          | :           |
|  | 1993  | 1994        | 1995        | 1996        | 1997        |
| <b>Financial indicators</b>                      |   |             |             |             |             |
| <b>Monetary Aggregates</b>                       | in Bn ECU                                       |             |             |             |             |
| - M1   | 0.6   | 0.8         | 1.0         | 1.1         | 1.2         |
| - M2   | 2.9   | 3.9         | 4.8         | 5.5         | 6.6         |
| - Total credit                                   | :   | :           | :           | :           | :           |
| <b>Average short-term interest rates</b>         | % per annum                                     |             |             |             |             |
| - Lending rate                                   | 32.7  | 27.9        | 15.3        | 15          | 13.2        |
| - Deposit rate                                   | 49.6  | 39.4        | 24.8        | 23.7        | 21.3        |
| <b>ECU exchange rates</b>                        | (1 ECU = .. National currency)                  |             |             |             |             |
| - Average of period                              | 132.6   | 155.25      | 154.88      | 171.78      | 180.96      |
| - End of period                                  | 147.09  | 156.47      | 165.58      | 177.28      | 186.81      |
| - Effective exchange rate                        | :   | :           | :           | :           | :           |
| <b>Foreign Trade</b>                             | in millions of ECU                              |             |             |             |             |
| <b>Imports</b>                                   | 5552  | 6143        | 7257        | 7419.6      | 8251.9      |
| <b>Exports</b>                                   | 5195  | 5742        | 6358        | 6544.6      | 7382.5      |
| <b>Balance</b>                                   | -357  | -401        | -899        | -876        | -869.4      |
|  | corresponding period of the previous year = 100 |             |             |             |             |
| <b>Terms of trade</b>                            | 106.2   | 106.0       | 103.5       | 101.9       | 99.7        |
|  | as % of total                                   |             |             |             |             |
| <b>Imports with EU-15</b>                        | <b>46.2</b>                                     | <b>57.1</b> | <b>68.8</b> | <b>67.5</b> | <b>67.4</b> |
| <b>Exports with EU-15</b>                        | <b>42.6</b>                                     | <b>59.2</b> | <b>67</b>   | <b>64.6</b> | <b>63.6</b> |
| <b>Demography</b>                                | per 1000 of population                          |             |             |             |             |
| <b>Natural growth rate</b>                       | <b>-0.1</b>                                     | <b>0.1</b>  | <b>0.0</b>  | <b>0.1</b>  | :           |
| <b>Net migration rate</b>                        | <b>-2.2</b>                                     | <b>0.0</b>  | <b>0.4</b>  | <b>-1.7</b> | :           |
|  | per 1000 live-births                            |             |             |             |             |
| <b>Infant mortality rate</b>                     | 6.8   | 6.5         | 5.5         | 4.7         | 5.2         |
|  | at birth  |             |             |             |             |
| <b>Life expectancy : Males</b>                   | 69.4  | 69.6        | 70.3        | 70.8        | 71.0        |
| <b>Females</b>                                   | 77.3  | 77.4        | 77.8        | 78.3        | 78.6        |
| <b>Labour market</b>                             | in % of labour force                            |             |             |             |             |
| <b>Economic Activity rate (ILO methodology)</b>  | 57.7  | 57.6        | 58.7        | 57.6        | :           |
| <b>Unemployment rate (ILO methodology) :</b>     | 9.1   | 9.0         | 7.4         | 7.3         | :           |
| <b>&lt; 25 years</b>                             | 24.2  | 22.2        | 18.8        | 18.8        | :           |
| <b>&gt; 25 years</b>                             | 6.4   | 7.1         | 5.6         | 5.6         | :           |
| <b>Average employment by NACE branches (LFS)</b> | in % of total                                   |             |             |             |             |
| - Agriculture and Forestry                       | :   | :           | :           | 10.1        | :           |
| - Industry                                       | :   | :           | :           | 36.8        | :           |
| - Construction                                   | :   | :           | :           | 5.4         | :           |
| - Services                                       | :   | :           | :           | 52.3        | :           |
| <b>Infrastructure</b>                            | in Km per 1000 Km2                              |             |             |             |             |
| <b>Railway network</b>                           | <b>59</b>                                       | <b>59</b>   | <b>59</b>   | <b>59</b>   | <b>59</b>   |
|  | in km   |             |             |             |             |

|   |                     |       |            |            |            |
|---|---------------------|-------|------------|------------|------------|
| <b>Length of motorways</b>                          | :                   | :     | <b>218</b> | <b>221</b> | <b>251</b> |
| Industry and Agriculture                            | previous year = 100 |       |            |            |            |
| <b>Industrial production volume indices</b>         | 97.2                | 106.4 | 102.0      | 101.0      | 101.0      |
| <b>Gross agricultural production volume indices</b> | 99.3                | 122.6 | 102.3      | 101.6      | :          |

## Methodological Notes

**Gross domestic Product per capita in PPS** : Revised data using the new PPP results from the 1996 International Comparison Project.

**Imports and exports (current prices)** : The data is based upon the “special trade” system, according to which, external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). *Trade Classification*: Slovenia introduced the Combined Nomenclature in 1996. Before that, a national classification based on the Harmonised System was used. Imports are recorded on FOB basis and are captured with the date the commodities are released into circulation in the country. Exports are recorded on FOB basis and are captured with the date on which the commodities cross the customs border.

Eurostat has converted the National Currency to the US dollar by applying the International Monetary Fund annual average exchange rates.

**Terms of trade** : The indices are calculated by the “unit value” method (Fisher index) from Dollar values for exports and imports of goods without processing.

**Imports and exports with EU-15: Source** : Data declared by the republic of Slovenia. Data for years 1993 and 1994 refer to trade with EU-12 only.

**Life expectancy** : Data for one year “t” actually refer to the period “year t-1 to year t”. (e.g. data for 1995 refer to 1994-1995)

**Economic activity rate (ILO Methodology)** : - Percentage of labour force in total population aged 15+.

Unemployment rate (ILO methodology): - Percentage of the unemployed labour force.

This rate is derived from LFSS (Labour Force Sample Survey) observing the following ILO definitions and recommendations:

**Labour force** : employed and unemployed persons in the sense of the ILO definitions stated below.

**The employed** : all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

**The unemployed** : all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

LFSS excludes persons in compulsory military service and persons living in nonprivate households (so - called institutional population). Workers on lay-off and persons on maternity leave are classified among persons in employment.

**Average employment by NACE branches (LFS)** : This indicator is derived from LFSS (Labour Force Sample Survey) observing the ILO definitions and recommendations.

**Industrial production volume indices** : Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E). Index of Industrial Production covers enterprises with 10 or more employees, except those engaged in the following activities: publishing, gas, steam and water supply.

**Gross agricultural production volume indices** : Indices are calculated from the data on crop and animal production and from triennial moving arithmetic mean of average purchasing prices.