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ON

SLOVENIA'S

PROGRESS TOWARDS ACCESSION

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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 with preparations for membership, and that it would submit its first Report at the end of 1998.

The Luxembourg European Council 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 Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis* [...] The Commission’s reports will serve as the 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.”

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second in October 1999, a third in November 2000, and a fourth in November 2001.

In its 2001 Enlargement Strategy Paper, which accompanied the 2001 Regular Reports, the Commission indicated that, given the pace of negotiations and the progress made so far, the Commission should be able to make recommendations on those candidate countries ready for accession on the basis of its 2002 Regular Reports. At its meeting in Seville in June 2002, the European Council concluded that “in order to enable the European Council to be held in the coming autumn to decide which will be the candidate countries with which negotiations can be concluded at the end of 2002, [...] the Commission will have to draft appropriate recommendations in the light of the Regular Reports.” The Commission has prepared this fifth series of Regular Reports with a view to the Brussels European Council in autumn 2002.

The structure followed for this Regular Report is largely the same as that used for the 2000 and 2001 Regular Reports. In line with previous Regular Reports, the present Report:

- describes the relations between Slovenia and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Slovenia’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);

- addresses the question of Slovenia's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. In this part, special attention is paid to nuclear safety standards, which were emphasised by the Cologne and Helsinki European Councils. This part includes not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*. The European Council stressed the importance of this latter aspect at its meeting in Madrid in 1995 and on a number of subsequent occasions, most recently at Seville in June 2002. At Madrid, the European Council stressed that the candidate countries must adjust their administrative structures, so as to create the conditions for the harmonious integration of these States. The Seville European Council also stressed how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level.

This Report takes into consideration progress since the 2001 Regular Report. It covers the period up to 15 September 2002. In some particular cases, however, measures taken after that date are mentioned. It looks at whether planned reforms referred to in the 2001 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides a global assessment of the overall situation for each of the aspects under consideration, setting out for each of them the main steps still to be taken by Slovenia in preparing for accession.

Furthermore, in view of the fact that the 2002 Regular Reports will provide the basis on which the Commission will formulate its recommendations as to which countries are ready to conclude negotiations, this Report includes an evaluation of Slovenia's track record since the 1997 Opinion. As regards the economic criteria, the report also provides a dynamic, forward-looking evaluation of Slovenia's economic performance.

For each of the negotiating chapters, this Report provides a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted. The commitments made by each country reflect the result of the accession negotiations, and, in accordance with the principle of differentiation underlying the negotiation process, may differ between countries. Where negotiating countries have committed themselves to completing specific measures by the time of accession, the Commission assesses the relevant preparatory processes. For chapters on which the accession negotiations continue, and final commitments remain to be defined, an indicative assessment is given of the state of implementation of the commitments that have been made to date.

The Report further includes a separate section examining the extent to which Slovenia has addressed the Accession Partnership priorities. This section also assesses the progress Slovenia has made in implementing the measures set out in the Action Plan for strengthening administrative and judicial capacity that the Commission developed with each negotiating country in the spring of 2002.

As has been the case in previous Reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various

stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment of each country in terms of their concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The information each of the candidate countries has provided within the framework of the Association Agreement and the negotiations, the National Programmes for the Adoption of the *Acquis* where they are available, as well as the process of developing the Action Plans, and various peer reviews that have taken place to assess candidate countries' administrative capacity in a number of areas, have served as additional sources. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations and in particular the contributions of the Council of Europe, the OSCE and the international financial institutions, as well as those of non-governmental organisations.

b) Relations between the European Union and Slovenia

Recent developments under the Europe Agreement, including bilateral trade

Slovenia has continued to implement the Europe Agreement and contributed to the smooth functioning of the various joint institutions.

The fourth meeting of the Association Committee took place in Brussels in February 2002. The Association Council met in Luxembourg in April 2002. The system of sub-committees continued to operate as a forum for technical discussions. The seventh session of the Joint Parliamentary Committee between the Slovenian National Assembly and the European Parliament was held in Ljubljana in October 2001.

The Joint Consultative Committee between the Economic and Social Committee and the representatives of the Slovenian social partners held its first meeting in June 2002. The Association Council decision for establishment of a Joint Consultative Committee with the Committee of Regions was adopted in January 2002, but the Committee has not yet held its first meeting.

In 2001, EC exports to Slovenia amounted to €8.4 billion and Slovenian exports to the EC to €6.6 billion. Slovenia thus had a trade deficit of €1.8 billion with the EC. Slovenia's share of EC exports increased by 3% over 2000, while its share of EC imports increased by 4%. In 2001, the EC accounted for 62% of total Slovenian exports and for 68% of total Slovenian imports. Similarly, Slovenia's share of extra-EC trade represented 0.9% of EC exports and 0.6% of EC imports in 2001. Slovenia's exports to the EC consisted mainly of machinery and electrical equipment (23% of the total), transport equipment (18% of the total) and base metals (14% of the total). The EC's exports to Slovenia consisted mainly of machinery and electrical equipment (26% of the total), transport equipment (15% of the total) and base metals (11% of the total).

¹ For the European Parliament the *rapporteur* is Demetrio Volcic.

As a consequence of the agreement which emerged from the first round of trade negotiations in the agriculture sector (adopted on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement), approximately 75% of EC agricultural imports from Slovenia and 56% of EC agricultural exports to Slovenia are either duty free or benefit from preferential reduced duty rates (based on average trade figures for 1998-2000).

Negotiations on a further round of trade liberalisation, covering more sensitive sectors where trade is currently rather low, in particular due to high border protection, were concluded on a technical level in July 2002.. The result of this further round, scheduled to take effect in January 2003, enhances the existing agricultural trade preferences between the parties and promotes the full or partial lifting of import duties, either within tariff quotas or for unlimited quantities, in the cereals sector. This further agreement also includes a commitment by the parties to remove export refunds for cereals. The agreement between the EC and Slovenia concerning processed agricultural goods entered into force in November 2001.

An Additional Protocol to the Europe Agreement providing for preferential conditions for trade in certain fish and fishery products between the EC and Slovenia entered into force in March 2002.

Negotiations on new preferential trade concessions for wines and the reciprocal protection and control of wine names and spirit designations were concluded in December 2001. The new preferential trade concessions have been in force since January 2002 as an Additional Protocol to the Europe Agreement. The trade agreement attributes a part of the ex-Yugoslav wine quota to Slovenia. Neither side will pay export refunds or subsidies on wine.

In March 2002, in response to protectionist measures taken by the US, which greatly restricted access to their market and created the risk considerable trade diversion, the EU initiated provisional safeguard measures, with erga omnes effect, on imports of certain steel products. The measure was partly confirmed in September 2002.

The negotiations on PECA (Protocol on European Conformity Assessment) were concluded and the PECA agreement initialled in April 2002.

Accession Partnership

A revised Accession Partnership was adopted in January 2002. Its implementation is reviewed in Part D of this Report.

Action Plan for reinforcing administrative and judicial capacity

As announced in the Commission's 2001 Enlargement Strategy, in spring 2002 the Commission and Slovenia jointly developed an Action Plan to strengthen Slovenia's administrative and judicial capacity, on which common understanding was reached in April. The revised Accession Partnership adopted in January has served as the point of departure for this exercise.

The purpose of this Action Plan is to identify jointly the next steps required for Slovenia to achieve an adequate level of administrative and judicial capacity by the time of

accession, and ensure that all necessary measures in this regard are taken, providing Slovenia with targeted assistance in areas that are essential for the functioning of an enlarged Union. As such, the Action Plan is a key tool for meeting the common objective of the EU and Slovenia, i.e. to ensure that Slovenia's preparations for accession take place as effectively as possible within the planned timeframe.

The implementation of the Action Plan is reviewed in Part D of this Report.

National Programme for the Adoption of the Acquis

In May 2002, Slovenia adopted the Amendments to the National Programme for the Adoption of the Acquis. The revised NPAA takes account of the comments and suggestions of the European Commission, the new Accession Partnership and the amendments resulting from additional screenings.

Community Assistance

Three **pre-accession instruments** have been financed by the European Community to assist the applicant countries of Central and Eastern Europe with their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agriculture and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. The support provided by these programmes is focused on the Accession Partnership priorities which are intended to help the candidate countries meet the criteria for membership.

For the years 2000-2002 total financial assistance to Slovenia amounts to around €25 million annually from Phare (with an additional €16.9 million granted in the course of 2002), €6.5 million from SAPARD, and between €10.8 and €21.7 million from ISPA.

The **Phare** programme has been providing support to the countries of Central and Eastern Europe since 1989, helping them through a period of fundamental economic and social transition and political change. Its current "pre-accession" focus was established in 1997, in response to the Luxembourg European Council's launching of the present enlargement process.

Phare provides the applicant countries of Central and Eastern Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis*, and investment in economic and social cohesion. This support comprises co-financing for technical assistance, "twinning" and investment-support projects, to help these countries with their efforts to adopt the *acquis* and strengthen the institutions necessary for implementing and enforcing the *acquis*. Phare also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investment and grant schemes) with a regional or thematic focus. In the context of the Action Plans for strengthening administrative and judicial capacity, particular emphasis is placed on the issue of institution building and associated investment intended to ensure compliance with the *acquis*. For 2002, the Commission has mobilised special financial assistance of up to € 250 million to accompany negotiating countries' efforts, over and above the indicative annual allocations for each of the Phare countries, bringing total Community assistance for strengthening the

administrative and judicial capacity of the negotiating countries in 2002 to around €1 billion.

The Phare programme allocated commitments of €192 million to Slovenia during the 1992-1999 period, €33.4 million in 2000 and €28.3 million in 2001² **The 2002 Phare Programme** for Slovenia consists of an allocation of €18 million for the National Programme, complemented by €16.9 million under the Phare 2002 supplementary institution building facility. The 2002 Phare programme focuses on the following priorities:

- Reinforcement of the *acquis* in the area of agriculture (administration of the CAP, veterinary and phytosanitary controls), €2.3 million.
- Internal market (energy, standardisation, eEurope), €2.5 million.
- Justice and home affairs (border crossing points and surveillance equipment and veterinary and phytosanitary inspection posts), €18 million.
- Institution building for the Structural and Cohesion Funds, €8.4 million.

An additional €7 million has been allocated for cross-border co-operation programmes between Slovenia and neighbouring countries. In 2002, the Phare contribution amounts to €2.5 million for cooperation with Italy, €2.5 million with Austria and €2 million with Hungary.

Slovenia also participates in and benefits from Phare-funded multi-country and horizontal programmes such as TAIEX, the Small and Medium-Sized Enterprises Facility, SIGMA and the nuclear safety programme.

Furthermore, in 2002 Slovenia is participating in the following Community programmes with co-financing from Phare: Socrates, Leonardo da Vinci, Youth, Life III, Culture 2000, Customs 2002, the Multi-annual Programme for Enterprises and Entrepreneurship, Media, the Public Health Programme, the European Monitoring Centre for Drugs and Drug Addiction, the European Environment Agency and the 5th Framework Programme on Research and Technological Development.

In order to streamline Community legal procedures and thereby facilitate the future participation of Slovenia in Community programmes, a Decision by the Association Council establishing the terms and conditions for such participation was adopted in January 2002.

Overall, the impact of Phare has been positive. There has been effective transfer of know-how, equipment and financial resources in a number of important fields such as agriculture, SME development and environment. Phare support for agriculture, SME development and the environment has succeeded in developing sector strategies and initiating essential institutional and financial mechanisms serving enterprises in these sectors. The selection and implementation of Phare projects linked directly to the adoption of the *acquis* continues to be generally satisfactory. Progress has been made in preparing projects in the area of Economic and Social Cohesion and Cross-Border Co-

² These figures include an allocation for Cross-Border Cooperation (CBC) Programmes of €7 million in 2000 and €7 million in 2001.

operation and the backlog referred to in last year's Regular Report has started to be absorbed. However, these efforts need to be continued.

Looking at specific projects, in Slovenia, Phare has played a particularly important role in the following:

- Setting up of the Integrated Agricultural Control System (IACS) department of the Agency for Agricultural Markets and Rural Development (AAMRD) in the Ministry for Agriculture, Forestry and Food. The 'Farm Registry' twinning project which was launched in July 2000 and ended in February 2002 helped to bring key elements of IACS (farm register, animal identification register, links to other information systems) in line with EC requirements. The results of the project should now enable IACS to administer the national direct payments.
- Establishing the Agricultural Markets Department within the AAMRD. The 'Agricultural Market' Twinning project, which was launched in September 2000 and ended in February 2002, helped to develop the organisation of the Agricultural Market department and to prepare the forms and manuals for implementation of all Common Market Organisations (Training on CMOs was provided for staff in the department). As a result of the project, four sections of the Agricultural Market department were successfully set-up: the Direct Payments section, the External Trade section, the Public Intervention section, and the Specific Measures section.
- Improving waste water collection and treatment infrastructure (mountain huts, WWTP Kranjska Gora) through investments. Phare also provided technical assistance for the preparation of investments outlined in the NPAA and supply of equipment for air and water monitoring.

The 2000 Phare Review confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The trends introduced in 1997 have continued, with an increased role for Commission Delegations, further streamlining of procedures and increasing emphasis on raising the verifiable and quantifiable impact of Phare projects on institution building, investment in compliance with the *acquis* and economic and social cohesion.

The Review also provided for the possibility of further decentralisation of Phare management, by waiving the requirement for *ex ante* approval by the Commission Delegations for tendering and contracting. For this to be possible strict pre-conditions covering programme management, financial control and structures regarding public finance must be met. An extended decentralised implementation system (EDIS) should be put in place for each negotiating country at the latest by the time of accession. High Level Working Groups are being established for each country to oversee this process, along with other key procedural steps in the run up to accession.

The **SAPARD** programme for Slovenia was approved by the Commission in October 2000. The indicative Community allocation for SAPARD in Slovenia for 2002 is €6.6 million at 2002 prices (allocation 2001 at 2001 prices: €6.6 million).

The programme is based on two major priorities: improvement of production and marketing structures in agriculture and food processing (75% of EC funds) and economic diversification and improvement of rural infrastructures (24% of EC funds).

The *Multi-annual Financing Agreement* (MAFA), setting out the rules for implementing SAPARD, and the *Annual Financing Agreement* (AFA), setting out the Community financial commitments to Slovenia for the year 2000, were both signed in March 2001 and entered into force in August and October respectively. The AFA for 2001 was signed in March 2002 and entered into force in July 2002.

The following structures are responsible for the implementation of SAPARD: the National Fund, located within the Ministry of Finance, administers SAPARD funds under the responsibility of the National Authorising Officer (NAO) and is responsible for the national accreditation of the SAPARD Agency; the Managing Authority is located within the Ministry of Agriculture Forestry and Food; the Agency for Agricultural Markets and Rural Development (AAMRD) has been designated by the Slovenian authorities as the SAPARD Agency; the Budget Inspection Authority of the Ministry of Finance was appointed as the Certifying Body.

In November 2001, the Commission adopted a Decision provisionally conferring management authority for SAPARD, on a fully decentralised basis, to the Slovenian implementing agencies. This decision includes approval of four out of five measures covering 99% of the amount available for Slovenia. In December 2001, the Commission made an initial payment to the National Fund. Up to June 2002 the SAPARD Agency received 76 project applications from potential beneficiaries of which 38 have been approved, involving around €5.2 million of public support.

A Monitoring Committee has been established by the Managing Authority and has met once.

The **ISPA** programming environment is governed by the national strategy papers for transport and environment which the Slovenian authorities finalised in 2000. In the case of transport, priority has been placed on rail projects. In the environment sector, the emphasis is on water treatment, with a more modest allocation for solid waste treatment.

For the years 2000 and 2001, the full (mid-range) allocation for Slovenia has been committed, i.e. € 35.7 million (€ 19.6 million in 2000 and €16 million in 2001). The allocation for 2002 will be between 1% and 2% of the overall allocation for ISPA, i.e. between €10.9 million and €21.8 million.

Three environmental projects were approved in 2001: sustainable water supply in the Gora area (total ISPA contribution of €2.6 million), a waste water treatment project in Slovenj Gradec in the Mislinja river basin (€4.5 million), and a waste management centre in the Dolensjka region (€ 5 million). One transport project was approved in 2001, for the modernisation of signalling and safety devices on the Divaca-Koper railway line (€4.4 million). Seven new projects are being prepared for 2002 and beyond: two concerning rail transport, four concerning waste management, and one consisting of technical assistance to prepare for decentralised management (EDIS) of ISPA.

Contracts have been signed for one project in each sector. Most of the tenders for the remaining ISPA projects approved in 2000 are currently in preparation.

Twinning

One of the main challenges still facing the candidate countries is the need to strengthen their administrative and judicial capacity to implement and enforce the *acquis*. As of 1998, the European Commission began to mobilise significant human and financial resources to help them with this process, using the mechanism of twinning administrations and agencies. In 2001, the Commission strengthened this emphasis on institution building further through the launch of the Action Plans for strengthening administrative and judicial capacity.

The twinning process makes the vast body of Member States' expertise available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

A total of 503 twinning projects were funded by the Community between 1998 and 2001. Between 1998 and 2000, these projects primarily targeted the main priority sectors identified in the Accession Partnerships: agriculture, the environment, public finance, justice and home affairs and preparation for the management of Structural Funds. Since 2000, other important sectors of the *acquis* have also been addressed through twinning, such as social policy, the fight against drugs, transport, and telecommunications regulation. Twinning now covers all sectors pursuant to the *acquis*.

Thanks to the strong support of the EU Member States, 103 twinning partnerships were funded by Phare 1998, involving all the candidate countries and almost all the Member States. These first generation projects have already come to an end. Under Phare 1999 a further 123 projects are currently being implemented and the programming exercise for Phare 2000 included a further 146 twinning projects. The 2001 programming exercise includes 131 twinning projects embracing all the Phare beneficiary countries, as well as Cyprus and Malta. Under the 2002 programming exercise, 119 twinning projects have already been planned and approved for implementation. A substantial number of additional twinning projects are planned, and these should be approved and implementation launched before the end of 2002. They include twinning projects identified in the Action Plans for strengthening administrative and judicial capacity in the negotiating countries. It is estimated that around 300 twinning projects are operational throughout the candidate countries at any one time. Furthermore, the candidate countries are being offered the a further way of drawing on Member States' expertise through "Twinning light", a mechanism to address carefully-circumscribed projects of limited scope which emerge during the negotiation process as requiring adaptation.

In Slovenia, 65 twinning projects (including "Twinning light") have been funded so far, of which 21 have been completed, 11 are in progress and 33 are in preparation. The sectors covered are: agriculture (17 projects), economic and social cohesion (8 projects), internal market (15 projects), finance (8 projects), justice and home affairs (10 projects), environment (4 project) and transport (2 project).

Negotiations

Since the opening of the accession negotiations, substantive discussions on the individual chapters of the *acquis* have started, and by April 2002, negotiations on all chapters (except Chapter 31 – Other) had been launched.

By the end of September 2002, the following 28 chapters have been provisionally closed: Free movement of goods, Free movement of persons, Freedom to provide services, Free movement of capital, Company law, Competition policy, Fisheries, Transport, Taxation, Economic and Monetary Union, Statistics, Social policy and employment, Energy, Industrial policy, Small and medium-sized enterprises, Science and research, Education and training, Telecommunications and information technologies, Culture and audiovisual policy, Regional Policy, Environment, Consumer and health protection, Justice and home affairs, Customs union, External relations, Common foreign and security policy, Financial control and Institutions.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”³

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

“The Slovenian institutions work smoothly, the various authorities being mindful of the limits of their powers and of the need for cooperation. The 1992 and 1996 elections were free and fair. The opposition fulfills a normal role in the operation of the institutions.

There are no major problems regarding observance of fundamental rights in the country. The rights of minorities are guaranteed and protected. Certain improvements still need to be made in terms of the working of the judicial system and the restoration to the original owners of property expropriated by the Communist regime. Efforts to combat corruption need to be more effective.

Slovenia is a democracy with stable institutions which guarantee the rule of law, human rights and respect for, and the protection of, minorities.”

In its 2001 Regular Report, the Commission found that:

“In its 1997 Opinion, the Commission concluded that Slovenia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Slovenia continues to fulfil the Copenhagen political criteria.

Slovenia has made good progress in judicial reform through adoption of new legislation and implementation of measures introduced partially already in the previous year aiming at abolishing the backlog of pending court cases. As a result, the number of pending court cases has been reduced significantly.

³ In the meantime, through the entry into force of the Treaty of Amsterdam in May 1999, the political criteria defined at Copenhagen have been essentially enshrined as a constitutional principle in the Treaty on European Union. Article 6(1) of the consolidated Treaty on European Union reads: "The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law." Accordingly, Article 49 of the consolidated Treaty stipulates that "Any European State which respects the principles set out in Article 6(1) may apply to become a member of the Union." More recently, these principles were emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

Overall public administration reform has progressed over the previous year. However, the Laws on Civil Servants and Public Agencies still remain to be adopted. They are an important part of the framework legislation for public administration reform providing for the independence of the civil service and status of public agencies. The efforts in this area should be continued.

There is a need to address police behaviour notably with regard to certain reported cases of ill-treatment.

The Accession Partnership of 1999 defines the acceleration of public administration reform as a short-term priority, which can be considered as having been met. However, adoption of legislation on public agencies, identified as a medium-term priority, remains to be implemented. Slovenia has progressed well with fulfilling the medium-term priority concerning improvement of the functioning of the judicial system. Continuation of efforts to resolve outstanding border issues with Croatia is defined as a medium-term priority and has now been fulfilled.”

The section below provides an assessment of developments in Slovenia, seen from the perspective of the Copenhagen political criteria, including the overall functioning of the country's executive and its judicial system. Such developments are in many ways closely linked to developments regarding Slovenia's ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Slovenia's ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Cooperation in the field of justice and home affairs*) of part *B.3.1.* of this Report.

Recent developments

There have been no changes in the Government since the previous Regular Report. The coalition Government continues to be led by the Liberal Democratic Party, which holds 10 ministerial posts. The United List of Social Democrats and the People's Party each have three ministerial posts.

The coalition parties have a large majority in the Parliament with 58 out of 90 seats and on many issues can count on the support of a further 10 parliamentarians. The largest opposition parties are the Social Democratic Party (14 seats) and the New Slovenia Christian People's Party (8 seats). All the coalition parties and the main opposition parties support Slovenia's EU membership.

Presidential and local elections have been announced for November as the current terms will come to an end.

1.1. Democracy and the rule of law

Slovenia has achieved stability of institutions guaranteeing democracy and the rule of law. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed over the past year. This section focuses on the most significant developments since the last Regular Report.

The parliament

The Parliament currently has 20 committees, 13 commissions and 5 delegations to international institutions. A new Commission for Constitutional Changes was formed in October 2001 to prepare changes to the Constitution, including those needed for accession to the EU. The Commission has a proportional number of representatives of all parties in the Parliament and is chaired by the Speaker.

The Parliament has continued to operate smoothly. After years of debate, it adopted new Standing Orders in April aimed at simplifying and speeding up the legislative process. The Orders, which entered into force in July 2002, enhance the role of the parliamentary committees. The committees are now responsible for adopting amendments and resolving all unclear issues in draft legislation before the second reading in the plenary, when only leaders of parliamentary groups can propose amendments. At third reading changes can be made only to the amendments. Furthermore, limitations have been introduced on speaking times in the plenary. Also, the role of the collegial body of the Speaker and his deputies has been increased. It has the authority to set the agendas of the Parliament and to organise its work and is to take into account the number of seats each party has in its decisions. The adoption of the new Standing Orders has also resolved the problem of the unconstitutionality of the old Standing Orders.

It is too early to say whether the changes will accelerate the legislative process. EU-related laws were given priority in the past and were often adopted in an accelerated procedure with all three readings taking place within a few days. However, newly adopted legislation sometimes needed to be amended several times soon afterwards — which may have been related to the limited preparation time. The opposition parties, which hold a quarter of the seats in Parliament, have criticised the changes, especially the limitations on speaking and debating times and the strengthening of the role of the collegial body of the Speaker and his deputies.

The executive

Since the last Regular Report, Slovenia has made good progress in public administration reform through the adoption of the remaining framework legislation.

The Law on Civil Servants adopted in June establishes a framework for a professional, impartial and accountable civil service. It differentiates between civil servants and politically appointed officials, and introduces career development schemes as well as disciplinary procedures. An Administrative Council with 12 members was created to ensure politically unbiased selection of staff. The Law is to enter into force in June 2003. In addition to this Law, the Code of Conduct for Civil Servants, adopted in January 2001, includes provisions on legality, reliability and predictability of actions by civil servants.

The functioning of public agencies is regulated by a new law adopted in May. The Public Agencies Act provides for the gradual abolition of those functions of the agencies which should not be part of public administration. It also limits the possibilities of setting up new agencies and makes agencies less dependent on political pressures by introducing a number of provisions concerning the appointment of their officials, reporting to the Government, and their financing.

The Law on Wages in the Public Sector, adopted in May, aims at creating a transparent system of wages in the public sector. It creates a number of wage groups and includes the possibility for performance-related bonuses. It also strengthens the role of the trade unions. However, several major trade unions have not given their agreement to the approach adopted in the Law and prefer to negotiate separate agreements. Some of them have already done so, but the Law will be implemented for the remaining professions.

The State Administration Act, adopted in May, defines the duties and responsibilities of the public administration, and relations between the Government, Ministries, administrative units and local authorities. It also defines the portfolios of the Ministries, includes provisions on the independence of civil servants working in them and regulates the setting up of public institutions within Ministries. The new Act has consolidated and incorporated into one law previous legislation concerning the public administration.

The constitutional changes complementing the Law on Government and related to the simplification of the procedures for appointing a government still remain to be adopted.

Amendments to the Law on Administrative Procedures introduced in May aim at making procedures more efficient and user-friendly though accelerated exchange of information between state institutions and increased use of e-administration.

The Law on inspections adopted in June regulates the inspection of functioning of public administration and replaces the previous law of 1994. It defines the principles of independence of the inspectors and determines their rights in monitoring the public administration.

The Minister Councillor reporting to the Prime Minister continues to co-ordinate public administration reform. The Ministry of the Interior is responsible for implementing reform and its Academy for Administration continues to offer training to civil servants. About 2 600 civil servants have taken part in the training. The Government has continued to implement the training strategy for public administration reform adopted in 2000 aiming at preparing the public administration in Slovenia for EU accession. About 1 800 civil servants participated in training in 2001.

The number of civil servants has increased somewhat in the past year, although no official data are available.

The Parliament received requests from areas within some of the larger municipalities for the establishment of more than 50 new municipalities, but decided in February to allow the setting up of only one new municipality. The Constitutional Court challenged this decision and requested the Parliament to reconsider whether it had sufficient legal grounds for its decision. The Parliament did so but subsequently confirmed its earlier decision. There are currently 193 municipalities in Slovenia.

The Constitutional Court ruled in 1998 that the Koper municipality had to be divided into two because of its mixed urban and rural character. The issue still remains to be settled.

The judicial system

The judiciary in Slovenia continues to have a high degree of independence, although some concerns have been expressed about the involvement of the executive and legislature in judicial administration. However, only limited progress has been achieved

since the last Regular Report in reducing the backlog of pending court cases. Furthermore, the number of pending cases related to the land register is still increasing. It appears that the measures introduced by the Government in 1999 and 2001 have produced only limited results so far and that the scope of the reform of the judiciary needs to be widened to significantly improve the situation.

Slovenia has a three layer court system consisting of county courts, second instance courts, and four higher (appeal) courts. The Supreme Court and the Constitutional Court form the highest level of the court system.

Implementation of the Hercules Project set up by the Government and the Supreme Court to cut backlogs in courts has continued in the reporting period. It provides for the possibility to rotate judges to assist overburdened courts to deal with caseloads. However, this possibility has so far been used only in three courts and it appears that it alone will not provide a solution to the problem of backlogs.

Amendments to the Law on Court Service adopted in July define provisions for the election and functioning of the Judicial Council. The amendments also introduce the possibility for the Council to monitor the work of judges in order to improve performance. The amendments further provide for increased mobility of judges in the context of the Hercules project. Amendments to the Law on Execution of Judgements in Civil Matters and Insurance of Claims adopted in July aim at speeding up court procedures related to civil cases by defining the procedure for forced execution of debts and seizure by court.

The number of judicial personnel was increased last year through the appointment of 31 new judges. There are about 755 judges in Slovenia and about 60 further vacancies to be filled. The judges are appointed by the Parliament on a proposal by the Judicial Council.

No reduction in court backlogs was achieved last year, despite the measures introduced by the Government. Although the number of pending court cases decreased slightly, the number of backlog cases⁴ has further increased. While there were about 240,000 backlog cases at the end of the year 2000, their number had increased to about 298,000 by the end of the year 2001. The Minister of Justice has recognised the need to improve the situation, noting that the legal right to a trial in a reasonable time is still not guaranteed.

A more comprehensive approach to the reform of the judicial system is needed including changes to procedural legislation in order to simplify court procedures and an increase in the number and responsibilities of court support and management staff. The Government adopted an Action Plan in May 2002 to address some of these concerns. It provides for the increased use of out-of-court settlements, the introduction of para-legals, and increased mobility for judges. The time span of the Plan is 10 years. While these efforts are commendable, it is important that the support of the judiciary for the reform is secured. Some of the proposals of the Government intended to cut backlogs by increasing the productivity of courts have met with criticism from the judiciary. The judges are reportedly concerned about some of the proposals, as they are seen to undermine the independence of the judiciary.

⁴ The Court Rules define, for different types of cases, a specific timelimit, as of when a pending court case can be defined as a backlog case.

The Training Centre for the Judiciary continues to provide training, including in European Law. On average every judge received five days of training in 2001. However, the Centre does not have permanent premises and funding for judicial training has decreased.

Free legal aid is available to socially vulnerable people. It covers both civil and criminal cases.

The continued increase in the number of pending land-register cases gives rise to serious concern. Despite the computerisation project for the land register, which started in 2000 and is scheduled to be completed in 2004, the number of backlogs in land registry has increased by 9%. Currently about 49% of land registry entries are processed electronically. 16 new staff have been recruited since March 2002 to work on the backlogs. The implementation of the project should be speeded up in order to ensure that it can be completed in the scheduled time.

Anti-corruption measures

According to surveys, corruption appears to be a rather limited problem in Slovenia, although public perception seems to regard corruption as more widespread than shown by official statistics. Progress has been made in the past year in establishing a coherent anti-corruption policy. The publication of recommendations resulting from an expert mission of the Council of Europe Group of States Against Corruption (GRECO), which visited Slovenia in autumn 2000, seems to have increased the impetus of this process.

A new law on Money Laundering was adopted in September 2001 broadening the professions obliged to report all suspicious transactions to the authorities to include tax advisers, auditors, accountants, banks, savings institutions, post offices and insurance companies. The Code of Obligations adopted in September 2001 includes provisions aimed at bringing Slovenian legislation in line with the provisions of the Council of Europe Civil Law Convention on Corruption. The Convention is in the process of ratification.

Although there is no specific anti-corruption legislation, a legal framework for anti-corruption measures has been established. There are provisions concerning corruption for instance in the Criminal Code, in the Code of Conduct for Civil Servants, and in the newly adopted Law on Civil Servants.

Slovenian legislation includes provisions on conflicts of interest, but public procurement in particular remains a vulnerable area, partly due to the small size of the population. Preventing conflict-of-interest situations, especially in public procurement, should be given more attention.

The Office for the Prevention of Corruption set up last year has continued its work on developing the legislative basis for anti-corruption activities. It also directs the work of the inter-ministerial co-ordination group for combating corruption. It does not, however, work on individual cases. It has carried out training for local authorities and is set to widen this to include the private sector as well. The Office also has the task of drafting a comprehensive anti-corruption strategy. The Office is seeking to have its independence strengthened by being made accountable to the Parliament instead of the Government.

The special anti-corruption units in the police, the Organised Crime Section in the Ministry of the Interior and the group of public prosecutors for special assignments have continued their work. GRECO recommended in its report that the staff in the anti-corruption division in the police be increased. It also noted that the roles of the police, the public prosecutor and the judges in the pre-trial process should be clarified, and that of the public prosecutor strengthened; and that the latter should be provided with the appropriate means to direct investigations. In the meantime, the Police and the Public Prosecutor General signed an agreement aiming at strengthening the role of the public prosecutor in the pre-trial process and at clarifying the roles of the institutions in this respect. However, changes to the pre-trial procedure remain to be included in the Criminal Procedure Act, and the anti-corruption division of the police still has a staff of three. As a follow up to the GRECO recommendations, Slovenia is strongly encouraged to continue its efforts to ensure due follow-up to the GRECO recommendations.

No major cases of corruption have been detected since the last Regular Report.

Slovenia is a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and to the Criminal Law Convention on Corruption. It is a full participant in the OECD Working Group on combating bribery of foreign public officials in international business transactions, and in September 2001 it ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The Council of Europe Civil Law Convention on Corruption is still in the process of ratification (see also *Chapter 24 – Co-operation in the field of justice and home affairs*).

1.2. Human rights and the protection of minorities

Slovenia continues to respect human rights and freedoms. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed over the past year. The following section focuses on the most significant developments since the last Regular Report.

Slovenia has ratified the major international human rights instruments (*see annex*). In May 2002, Slovenia signed Protocol No. 13 to the European Convention for the Protection of Human Rights and Fundamental Freedoms concerning the abolition of the death penalty in all circumstances.

Slovenia has signed but not yet ratified Protocol No. 12 to the European Convention for the Protection of Human Rights and Fundamental Freedoms prohibiting discrimination on any grounds. With regard to the transposition of EC anti-discrimination legislation, the Employment Relations Act adopted in April 2002 includes provisions on direct and indirect discrimination on a number of grounds. Further progress is needed to ensure the full transposition and implementation of the EC anti-discrimination legislation (*see chapter 13 – Social policy and employment*).

The Office of the *Ombudsman* is an autonomous, independent and impartial institution elected by the Parliament for a period of six years. The Ombudsman has a general mandate for human rights, and issues an annual report. The institution has continued to function well and currently has 32 employees. The majority of cases filed with the Ombudsman continue to concern the length of court and police proceedings.

Civil and political rights

Additional steps have been taken to further improve the protection of civil and political rights, but some issues continue to merit attention.

The Ombudsman considers that the situation concerning *degrading treatment by the police* has improved as the police have taken the concerns voiced seriously. He notes, however, that more attention should be paid to appropriate handling of complaints concerning police behaviour. Such complaints relate mainly to excessive use of force against people in *custody*. Roma representatives identify police violence as a problem.

Since the previous Regular Report, Slovenia has appointed a National Co-ordinator for combating *trafficking in human beings*. Slovenia is both a transit country and a destination country for trafficking. According to a local NGO, about 2 000 women are trafficked through Slovenia into the EU every year. Although there is no particular law specifically prohibiting trafficking, Slovenian criminal law contains provisions that can be used to penalise traffickers. The Government is making efforts to improve the measures to eliminate trafficking. International organisations recommend that these focus on development of a coherent policy on combating trafficking including more effective prosecution of traffickers and protection and assistance of victims.

Prison conditions in general fulfil international standards but prisons remain overcrowded.

Free *legal aid* is available to socially vulnerable people. It covers both civil and criminal cases.

Slovenia has made progress in the area of *asylum* overall but the implementing legislation for the asylum law remains to be finalised. The separation of asylum homes from the centre for illegal immigrants is progressing on schedule but remains to be completed. This project is also to contribute to improving the conditions in both (for details see *Chapter 24 – Co-operation in the field of justice and home affairs*). Furthermore, the integration of recognised *refugees* into society should be improved.

The adoption of amendments to the Law on Temporary Protection in July 2002 to address the situation of about 2 000 persons from Bosnia and Herzegovina who have had temporary protection status for up to ten years constitutes important progress. It is envisaged that these people will get permanent residence rights in Slovenia. It is now important that the provisions of the Law are implemented as laid down.

The process of regularising the situation of citizens of former Yugoslav republics has continued. About 13 000 applications were submitted within the deadline, and a decision has been taken on about 10 200 of these. About 9 800 decisions were positive. The Government has undertaken to decide on the remaining 2 700 or so applications by the end of 2002. In addition to these, a further 1 100 persons have been granted permanent residence under the Aliens Act. An NGO has lodged a complaint in the Constitutional Court claiming that the deadline for application was too short and questioning the practice that permanent resident rights are granted only from the time of lodging the application.

Incitement to *racial hatred* is a criminal act under the Slovenian Criminal Code. However, there has so far been no legal practice in this area. The Slovenian Ombudsman

has called for stricter measures against racially motivated violent offences. The authorities have carried out awareness-raising measures. These efforts should be continued and stepped up.

The Constitution guarantees *freedom of expression*.

Freedom of religion is provided for in the Constitution and no particular problems have been noted in this area.

NGOs continue to operate actively and are supported by a government-funded centre. Involvement of NGOs has grown since the start of the accession process.

The *denationalisation* process (the process of returning property to persons dispossessed by the Communist regime) has continued over the past year, but progress remains slow. The legal basis for the process is the Denationalisation Act of 1991. According to information provided by the Slovenian Government, by June 2002 a decision had been made on 66% of the property in question (compared with 61% in September 2001). This figure refers only to the decisions taken – not decisions implemented⁵. In particular, cases involving large properties remain unresolved. By the end of 2001 30 new members of staff had been recruited to work in this area. The Working Group on denationalisation, comprising representatives of the relevant ministries and an organisation representing former owners of expropriated property, has continued functioning.

Economic, social and cultural rights

Some further positive developments have taken place in this area.

A new framework law on *equal opportunities* was adopted in June. It foresees the setting up of a national programme in this area and introduces new legal instruments and strategies to guarantee equal opportunities. The equality of men and women is guaranteed by the Constitution. The Office for Equal Opportunities with eight members of staff monitors the implementation of the equal opportunity policy and prepares legislation in this area. However, the number of women in the most senior positions in the economy and politics remains modest. 13% of parliamentarians are female and there are three female ministers in the Government (*see also chapter 13 – Social Policy and Employment*).

The Constitution guarantees the *rights of disabled* people. The governmental Office for the Disabled with nine members of staff is responsible for monitoring the position of the disabled and for assisting in drafting legislation. The best-protected category of the disabled is war victims, notwithstanding the fact that those disabled since birth are the most vulnerable. By international standards protection is average. The Government has adopted policies promoting the employment and training of disabled people. The government programme covering the period 1998 to 2002 is being implemented.

Trade Unions continue to participate actively in the process of adopting relevant legislation and in decision-making on wage, labour and pension policies. The right to strike is provided for in the legislation.

⁵ The figure is based on the value of property.

Slovenia is a party to the *Revised European Social Charter*. It has signed the Additional Protocol providing for a system of collective complaints and accepted the procedure provided for in the Protocol. The Council of Europe is assisting Slovenia in the implementation of the Charter.

Minority rights and the protection of minorities

Good progress has been made in this area since the last Regular Report with the adoption of the amendments to the law on local self-government, which introduces the right of the Roma minority to be represented in 20 municipalities. The overall situation regarding the protection of minorities in Slovenia can be considered to be good. However, members of the Roma community continue to experience social inequalities and discrimination.

The Government Commission for National Minorities includes representatives of the minorities recognised in the Constitution (the Hungarian and Italian minorities) and Roma representatives participate in the Government Commission for Protection of the Roma. The Government Office for National Minorities with three members of staff monitors the implementation of the legislation for the protection of minorities, draws attention to inadequacies and prepares initiatives for the Government and state bodies. The Office co-operates directly with the organisations representing minorities and allocates funds for their activities, in particular related to minority-language media and culture.

The Hungarian, Italian and Roma minorities are given special rights in the Slovenian Constitution. The Hungarian and Italian minorities are guaranteed the right to education and schooling in their own languages and Hungarian and Italian are recognised as official languages in areas where these communities reside. The new State Administration Act adopted in May includes provisions on the right to use the Italian and Hungarian languages. Both of these minorities are also allocated one seat in the Parliament. The protection of the rights of these two minorities can be considered comprehensive.

Amendments to the law on local government adopted in May introduce the right of the Roma minority to be directly represented in 20 municipalities. These amendments follow a Constitutional Court ruling from April 2001, according to which some provisions of the law on local government were in breach of the Constitution as that Law did not provide an adequate legal basis for Roma candidates to run as members of the Roma community in local elections. Previously, the provisions on participation of Roma in local self-government had been implemented in only one municipality. The Government was also asked to earmark additional funds in the 2003 budget for these 20 municipalities to implement policies benefiting the Roma population. These legislative changes will contribute to implementing the rights of the Roma to political representation in practice. However, some provisions of the legislation have not been fully translated into action because many Roma have not officially registered as members of the Roma community and the total number of registered Roma therefore remains under the legislative limit.

The special status and rights of the Roma community are guaranteed in Article 65 of the Constitution. Sectoral legislation concerning local government and education has provisions concerning the rights of the Roma community. However, some of the laws

only apply to those termed ‘autochthonous’ Roma⁶ – excluding the ‘non-autochthonous’ Roma even if they are citizens. Adoption of comprehensive anti-discrimination legislation would be an important step forward.

The Roma community in Slovenia comprises about 6 500 to 10 000 people. Most Roma live in the north-eastern part of Slovenia which has the lowest per capita income and the second highest unemployment rate in the country. A large majority of the Roma continue to rank among the poorest part of the population in Slovenia. 74% of the community are recipients of social benefits and 87% are not in regular employment. Implementation of the government Programme on Equal Opportunities of Employment for the Roma has continued. However, Roma representatives have criticised the programme for focusing too much on short-term projects. Policies promoting socio-economic integration of the Roma are still needed, especially in the areas of employment and health. Sustained efforts are also required in the area of education and to improve the situation as regards housing. Serious efforts are needed to tackle these problems at their roots.

Slovenia is a party to the Council of Europe Framework Convention for the Protection of National Minorities. It submitted its first state report in November 2000. The Advisory Committee on the Framework Convention has so far not adopted an opinion on Slovenia.

1.3. General evaluation⁷

In its 1997 Opinion, the Commission concluded that Slovenia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. This has been confirmed over the past year. Slovenia continues to fulfil the Copenhagen political criteria.

Slovenia has made considerable progress on public administration reform by adopting the laws on civil servants, public agencies and state administration. With the adoption of these laws, the framework legislation for public administration reform is now in place. It is important that these laws are now fully implemented.

Reform of the judiciary has continued through legislative changes and the adoption of measures aimed at abolishing the backlog of pending court cases. Slovenia has recognised the need to improve the situation further.

Slovenia continues to respect human rights and freedoms.

⁶ The term ‘autochthonous’ is not defined in law.

⁷ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

2. Economic criteria

2.1. Introduction

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

“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 its 2001 Regular Report, the Commission found that:

“Slovenia is a functioning market economy. Provided that it implements the remaining reforms to increase competition in domestic markets, it should be able to cope with the competitive pressure and market forces within the Union in the near term.”

In examining economic developments in Slovenia since the Opinion, the Commission's approach was guided by the June 1993 conclusions of the Copenhagen European Council, 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 and the previous annual Regular Reports. The analysis in this year's Regular Report takes stock of developments since the Opinion was drafted.

2.2. Summary of economic developments since 1997

*Since the Opinion, Slovenia has achieved relatively robust growth with no major macroeconomic imbalances. Average GDP growth for the period since 1997 was 4.2%, but weakened to 3.0% in 2001. Overall, growth has been supported by both external and domestic demand. Even in 2001, GDP growth remained mainly based on a positive net export performance, despite a deteriorating external environment. The current account deficit averaged about 1.7% of GDP, moving from a slight surplus to a deficit of 3.9% in 1999 and then, with weakening domestic demand, back toward equilibrium again. The government deficit hovered around 2.3% of GDP in harmonised EU standards (ESA95) for the period 1997-2001.⁸ Unemployment averaged 6.8% and has shown a gradual downward trend since 1999, reaching 5.7% in 2001, the lowest level so far. Inflation on the other hand has been stubbornly stuck in the high single-digit numbers, averaging 8%, and remains a key policy issue. Currently, inflationary pressures remain present through, *inter alia*, public sector wage pressures, and are sustained by still prevalent – although weakening – indexation and a largely accommodating monetary and exchange-rate policy.*

| Main Economic Trends | | | | | | | | |
|---|---|-------|--------------------|-------|-------|------------------|---------|---------------------------|
| Slovenia | | 1997 | 1998 | 1999 | 2000 | 2001 | Average | 2002 latest |
| Real GDP growth rate | per cent | 4.6 | 3.8 | 5.2 | 4.6 | 3.0 | 4.2 | 2.2 Q1 |
| Inflation rate | per cent | 8.3 | 7.9 | 6.1 | 8.9 | 8.6 | 8.0 | 7.8 July ^b |
| - annual average | per cent | | | | | | | |
| - December-on-December | per cent | 8.8 | 6.4 | 8.1 | 8.9 | 7.1 | 7.9 | 7.5 July |
| Unemployment rate | per cent | 6.6 | 7.4 | 7.3 | 6.9 | 5.7 | 6.8 | 5.9 Q2 |
| - LFS definition | per cent | | | | | | | |
| General government budget balance | per cent of GDP | -1.2 | -2.3 | -2.2 | -3.2 | -2.5 | -2.3 | |
| Current account balance | per cent of GDP | 0.1 | -0.8 | -3.9 | -3.4 | -0.4 | -1.7 | |
| | Million ECU/€ | 10 | -131 | -734 | -662 | -75 ^c | -318 | 106 Jan.-May ^c |
| Gross foreign debt of the whole economy | per cent of exports of goods and services | 30.9 | 35.4 | 44.2 | 45.7 | : | : | |
| - debt export ratio | per cent of exports of goods and services | | | | | | | |
| | Million ECU/€ | 2,854 | 3,506 ^a | 4,357 | 5,278 | : | : | |
| Foreign direct investment inflow | per cent of GDP | 2.1 | 1.3 | 0.9 | 1.0 | 1.9p | 1.4p | |
| - balance of payments data | per cent of GDP | | | | | | | |
| | Million ECU/€ | 331 | 221 | 170 | 190 | 390 p | 260 p | 357 Jan.-May ^c |

Sources: Eurostat. National sources. OECD external Debt Statistics

^a series break as a result of some technical changes to the definition.

^b Moving 12 months average rate of change.

^c Source: Website of the National Bank.

⁸ Data for 1997 are not available according to ESA95 definitions, so national data were used. Excluding

The restructuring process has generally been moving forward slowly and shows a mixed picture in a number of sectors. Since the Opinion, progress in privatisation, liberalisation and restructuring has often been slow although with noticeable sectoral differences. The Slovene Development Corporation (SDC) has played a major but not always transparent role in the privatisation and restructuring process. In 2001 the government decided to close down the SDC by the end of that year. This commitment has proven difficult to put into practice and is slipping behind schedule again. Following a final sale of assets allocated by the state to fill the privatisation gap in March 2002, the gap, which emerged in 1996 as a result from a mismatch between the value of ownership certificates given to the population and the value of privatised assets, has now been closed. In the steel sector, implementation of the privatisation plan in accordance with the restructuring programme has now commenced, while liberalisation has started in a number of utilities markets such as telecom and energy. On the other hand, the privatisation process of the major and state-owned insurance company has not started yet, although in May 2002 Parliament adopted a new law for ownership transformation that should finally pave the way for reform in this sector. The banking sector continues to be dominated by two state-owned banks and there is little foreign competition, although it is slowly increasing. The privatisation process in this sector has now started but not without problems, as the government stopped the privatisation process of one of the banks and altered the privatisation plan of the other one in the final stages of the process. Slovenia has received only relatively marginal inflows of foreign direct investment (FDI) at about 1% of GDP annually, but, encouragingly, in 2001 inflows more than doubled to 2.3% of GDP, mainly as a result of foreign acquisitions in the banking and telecommunication sectors.

Starting from already relatively high income levels, Slovenia has made good progress in catching up with the EU average. In 2001, GDP per capita in purchasing power standards stood at 69% of the EU average. GDP per capita in the region including the capital Ljubljana reached 91% of the EU average, significantly higher than in the rest of the country. The poorest regions are primarily located in the eastern part of the country, with income levels reaching slightly above 50% of the EU average. The economic activity rate fluctuated only slightly over the reference period, standing at 67.5% in 2001, close to the 1997 level. The employment rate followed a similar movement and stood at 63.6% in 2001 while the unemployment rate decreased from its peak of 7.4% in 1998 to 5.7% in 2001. Over the period, the share of long-term unemployed initially fell to 42% in 1999, but then increased to 63% by 2001, concentrated among older and middle-aged low-skilled workers. The unemployment rate for persons younger than 25 rose initially to 18.5% in 1999, before it fell again to 15.7% in 2001. There has been a slight but persistent gap between male and female unemployment rates with 5.4% for males against 6% for females in 2001. Slovenia has relatively small but persistent regional disparities. Poorer regions continue to register declining population and higher unemployment.

1997 gives an average deficit of 2.6% of GDP.

| Main Indicators of Economic Structure in 2001 | | |
|--|--------------------------|--------------------|
| Population (average) | Thousand | 1,992 |
| GDP per head ^a | PPS | 16,000 |
| | per cent of EU average | 69 |
| Share of agriculture ^b in: | | |
| - gross value added | per cent | 3.1 |
| - employment | per cent | 9.9 |
| Gross fixed capital formation/GDP | per cent | 24.9 |
| Gross foreign debt of the whole economy/GDP ^c | per cent | 27.0 |
| Exports of goods & services/GDP | per cent | 60.1 |
| Stock of foreign direct investment | Million € | 3,041 ^c |
| | €per head ^a | 1,527 |
| Long term unemployment rate | per cent of labour force | 3.6 |

P: provisional data

^a Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

^b Agriculture, hunting, forestry and fishing.

^c Data refer to 2000.

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. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

There has been a clear consensus among political parties about current and medium-term policy priorities in Slovenia, although implementation has often been slow. The very gradual approach to structural reforms has helped to preserve social stability while at the same time it often delayed necessary reforms. There is increasingly good co-ordination between policy departments. The government economic agency (IMAD) continues to play a key role in the policy development process. IMAD, together with the Ministry of Finance and line ministries responsible for structural reforms, prepares the Pre-accession Economic Programme (PEP). The 2002 PEP was submitted to the Commission in August after adoption by the government. Its preparation was integrated with the budgetary procedure for 2003 and 2004.

GDP growth was relatively high without major fluctuations, but weakened in 2001 and early 2002. Slovenia achieved an average growth rate of 4.2% since 1997. In the first half of the period, growth was mainly pushed by domestic demand, both private consumption and investment while in recent years it was largely net exports that drove growth. For 2001, the latter were almost alone in pushing growth while private sector domestic demand decelerated significantly, resulting in a deceleration of growth to 3.0%. In the first quarter of 2002, GDP growth slowed down further to 2.2%, one of the lowest rates so far. With the exception of a credit-driven consumption boom in 1999, consumption expansion generally remained below GDP growth. After years of high growth, domestic investment stagnated and then contracted in 2000-2001. The fall seems mainly cyclical in nature and is linked to a number of factors such as the completion of earlier capital goods upgrading linked to ownership restructuring, de-stocking, lower domestic demand, and a decline in public investment in 2001. Given the reasonably high investment share, modest external and government deficits, and the past record of stable and robust economic development, Slovenia should have a fairly good macroeconomic resilience to external shocks, although there is little flexibility in fiscal policy given the high share of mandatory expenditure.

In the period since 1997, both trade and current accounts first moved toward higher deficits and then diminished again. On average the trade deficit reached 4.8% of GDP, while the current account deficit stood at a relatively modest 1.7% of GDP. Real export growth in 2001 remained relatively dynamic although at a much lower pace than during the export boom in the preceding years. Export expansion was notably driven by high export increases to Russia and the former Yugoslavia, while demand from the EU, by far the largest trading partner, slowed down. Lower domestic demand growth, caused by the drop in investment, led to an unexpectedly sharp fall in real import growth in 2001. In combination with an improvement in the terms of trade, this led to a significant drop in the current account deficit in 2001 and brought it close to equilibrium. This development continued in the first five months of 2002 where a marginal surplus was realised.

FDI inflows have been relatively marginal before 2001, when they became more substantial. Most of the current account deficits have been financed through borrowing, leading to increased foreign debt. For 2001, the capital account showed strong net capital inflows, which, given the balanced current account, resulted in higher foreign exchange reserves. FDI inflows more than doubled to 2.3% of GDP, while outflows nearly doubled as well to 0.4% of GDP. This better performance was mainly driven by foreign investment in the telecom and banking sectors, while the new government programme for promoting FDI might also have facilitated inflows. Inflows continued at similar levels in the first five months of 2002, reaching €357 million, mainly from investment in the banking sector. By the end of 2000, external debt stood at 27% of GDP, up from 20% in 1998.

Since 1999, unemployment has been declining gradually. Average unemployment (ILO definition) stood at 6.8% in the period 1997-2001, diminishing from a peak of 7.4% in 1998 to 5.7% in 2001, historically the lowest rate recorded. It remained broadly stable in the first half of 2002, standing at 5.9% in the second quarter. A policy of keeping wage rises below productivity increases did put downward pressure on labour unit costs. In addition, the new Employment Relations Act, passed by Parliament in April 2002, should contribute to higher flexibility on the labour market when it enters into force in 2003. The Act, harmonised with the *acquis*, was passed after more than seven years of preparations and discussions.

Inflation has remained persistently in the high single digits. The stubbornly high inflation has been, and remains, a key macroeconomic policy concern. Consumer price inflation (Harmonised index of consumer prices or HICP) for the whole period since the Opinion fluctuated around 8.0%, and stood at 8.6% in 2001. A generally accommodating monetary policy stance, an exchange rate system of continuous gradual depreciation, widespread indexation of wages, pensions and interest rates, the slow structural reform process, and too little competition in a number of sectors in the economy, all kept inflationary pressures stubbornly alive. Inflation declined only marginally during early months of 2002 and stood at 7.5 % year-on-year in July 2002, partly pushed by increases in VAT, excise taxes and administered prices. However, the wage (and pension) indexation system is now shifting both in the private and public sector from backward- to forward-looking, while interest rate indexation (basic interest rate, or TOM) is gradually being dismantled as well. Both represent important, but slow and belated, steps toward de-indexation of the economy.

Monetary policy has targeted a gradual lowering of inflation and stability of the real exchange rate. The Bank of Slovenia (BoS) took a pragmatic and eclectic approach but often found itself pursuing both objectives even though they were (in the short run) potentially conflicting. The BoS used intermediate growth targets for broad money (M3). Its average growth since 1997 nonetheless exceeded 20%. In 2001, monetary policy was tightened to some extent and interest rates were raised, but money growth of 27% still surpassed the not very ambitious target range of 11-17%. In the first six months of 2002, average money growth reached nearly 26%, again significantly above the upper band set for that year. Such high monetary expansion allows inflation to persist. With capital liberalisation progressing, thereby reducing control both of the broad money supply and the exchange rate, in November 2001 the BoS presented new monetary policy guidelines for the period up to EU accession. While M3 growth targets remain the main instrument, other indicators are taken into account and an explicit medium-term inflation target of 3-4% is set. This is all helpful in increasing transparency. Slovenia is a very open

economy and the exchange rate is therefore a key determinant of inflation. The exchange rate regime was a managed float shadowing the euro, without explicit exchange rate targets or formal exchange rate bands. In practice, it seems to be closely managed on a gradually depreciating path to keep the real exchange rate more or less constant in an inflationary environment. The nominal effective exchange rate gradually depreciated by 21% during the period, of which 6% in 2001. In March 2002 the pace of nominal effective depreciation had slowed down to 5% year -on- year. In turn, this nominal depreciation added to inflationary pressure. The system has become increasingly difficult to operate given the ongoing liberalisation of capital movements.

Government budget deficits have on the whole been modest although upward pressures remain. The average government budget deficit in the period 1998-2001 was 2.3% of GDP (or 1.1% of GDP for 1997-2001 in national methodology⁹), with a peak of 3.2% in 2000. At the same time, the primary balance (balance excluding interest payments) in the period moved around a marginal deficit of 0.3% of GDP, and stood at 0.2% of GDP in 2001. The overall deficit is the sum of the deficit in central government, a balanced budget for local government, and a small social security funds deficit of around 0.2%. The moderate government deficits led to a fairly small but gradually rising general government gross debt of 27.5% of GDP. For 2001 the budget deficit reached 2.5% of GDP, which was higher than foreseen. The overrun mainly resulted from high growth in public wages and pensions, further increasing an already high share in total government expenditure, and lower government revenues resulting from muted domestic demand. In July 2002, Parliament adopted a supplementary budget for this year to increase the budget deficit to 1.8% GDP (against 1.6% previously) as growth has been lower than expected. In the first half of 2002 revenues stood at 41% of the anticipated inflow, while expenditures already had reached 49% of planned expenses. The budget is still characterised by a high share (more than three-quarters) of fixed commitments while various expenditure pressures, for example from rising public sector wages, complicate efforts to keep the budget deficit under control. In order to realise the medium-term fiscal target of budget balance and to increase fiscal flexibility, a sustained effort to deal with expenditure pressures will be required.

The government has moved toward a medium-term fiscal framework and two-year budgets. In this quite sophisticated and clear framework for budget preparation, the objective is to reach fiscal balance over the medium term. The procedure was already partly used for the 2001 budget and then for the budget 2002-2003. This represents a step forward as concerns transparency and control of public expenditures. Nevertheless, several revisions of the budget and even a temporary suspension of the budget implementation in May 2002 have already been carried out. Although adjustments are natural in the light of changing circumstances, revisions should be limited in scope and frequency in order to maintain the value of creating a multi-year budget.

The policy mix has been mainly aimed at preserving external competitiveness, rather than bringing down inflation in a sustainable way. The relatively high investment rate has not led to significant external deficits, thanks to high private saving and moderate government deficits. Fiscal policy contributed to a stable macro-economic environment although some slippage in budgetary management did occur. The monetary policy stance

⁹ For 1997 no data were available in ESA95 methodology; the difference in deficits is due to a number of factors, notably the cash/accrual base correction for interest accrued on bonds issued for bank restructuring.

has remained mostly accommodating to inflationary pressures and was insufficiently supported by structural reforms in the economy to increase competition and decrease inflationary pressures from administered prices.

Price liberalisation is well advanced but administered prices still contribute to inflation. The share of administered prices in CPI has steadily diminished over the period 1997-2001, declining by 5 percentage points to 12%. At the same time, the contribution of administered prices to inflation has been invariably higher than their share in the price index. Products and services under government price control are mainly found in energy, basic community services, public transport and basic telecommunication services. Price liberalisation continues and prices for postal services, basic foodstuffs such as milk, and electricity for large-use consumers have recently been liberalised. Although price formation remains under government control, soft price control mechanisms are in place for energy products whereby pricing models are formulated that establish a more direct link with world market prices. Prices for fixed-line telephone services were increased, narrowing the gap with average EU prices. When control over prices for municipal services was transferred from central government to the local level in the course of 2001, the move appeared to be a key step towards price liberalisation. However, the price control transfer was not accompanied by a liberalisation of community services, and municipalities raised prices to increase their own revenues.

Although withdrawing gradually, the state is still prominent in the economy. Since the Opinion, the private sector share in the economy first remained at 60% and increased to a still comparatively low 65% of GDP in 2000 (latest estimate). The role of the public sector in the economy is still very important. According to estimates by IMAD the state directly or indirectly still controls almost half of the economy. This slow privatisation pace reflects the gradualist approach to structural reforms in Slovenia.

In general, privatisation has proceeded only slowly although the pace has accelerated somewhat recently. Following years of little progress in privatisation, the government's coalition agreement in December 2000 set a timetable for further privatisation. This positive decision included, *inter alia*, the privatisation of the two largest and state-owned banks, Nova Ljubljanska Banka (NLB) and Nova Kreditna Banka Maribor (NKBM), with clear deadlines for starting in 2001, the privatisation of insurance companies, and the finalisation of privatisation in the steel sector by the end of 2001. In addition, after various delays, a formal plan to close down the Slovene Development Corporation (SDC) was adopted in February 2002. In the past, the SDC played a major role in providing non-transparent state aids to ailing state-owned companies. Since December 2001, the SDC has ceased to allocate state aid to companies. The liquidation aims at filling the rest of the privatisation gap with the proceeds of the firms in its portfolio and at the reform of SDC activities in line with EU guidelines on state aid. By March 2002, all contracts on the transfer of assets from the SDC to authorised investment companies and management companies had been signed, and the privatisation gap had been formally filled. This transfer of assets paves the way for the final closure of the SDC, although a number of technical and legal problems still remain, leading to new delays.

The business climate has improved, although problems remain. In the period 1997-2001 the number of enterprises only grew by 0.9% annually on average. In 2001 the number of companies fell by 1.3%. Transaction costs of setting up new businesses have been high relative to the small size of the domestic market, while labour markets were rather rigid. The still relatively underdeveloped capital markets and low level of competition in the

banking sector kept costs high for raising capital locally. Bureaucratic and lengthy procedures and difficulties in buying land for construction, obtaining site development approvals and work permits, and hiring and firing employees also deterred domestic and foreign investors. A number of recent developments such as the adoption of more flexible labour laws (Employment Relations Act), the implementation of the Action Plan for the removal of administrative obstacles adopted in 2001, the start of de-indexation of interest rates and a shift in wage indexation, the further gradual development and liberalisation of financial markets, and the ongoing liberalisation in the utilities sector all contribute to improving the business climate as well. The strong increase of FDI in 2001 can also be taken as a positive sign of confidence, although at the same time there has also been a markedly increased political resistance to inward FDI in some sectors, such as banking and brewery. At the same time, (smaller) FDI inflows in e.g. the cement and tyre sectors in early 2002 have gone smoothly so far.

There have been some improvements concerning the implementation of bankruptcy procedures but they remain long. The legal system is well developed and firmly in place. Laws and contracts are enforced. In the period since the Opinion, a certain reluctance to let enterprises go bankrupt as well as a lack of administrative capacity in the court system led to lengthy and slow bankruptcy procedures and sizeable backlogs, while verdicts were not always enforced. Following the implementation of the Financial Operations of Companies Act (FOCA) in July 1999, improvements were made in the deletion of legal entities from the court register and through introducing streamlined procedures for winding up companies, although application of some of the provisions of the Act was postponed. In 2000 and 2001 the number of bankruptcy cases rose sharply because of the introduction of more appropriate legislation, higher efficiency in the judicial system and with the state becoming more actively involved in tax recovery procedures and as petitioner in bankruptcy procedures.

The banking system is generally sound, but remains underdeveloped in a sheltered environment. Financial intermediation has been gradually increasing, although from low starting points and reaching relatively modest levels so far. Domestic credit as a percentage of GDP increased from nearly 29% in 1997 to 41% at the end of 2001, although enterprises, SMEs in particular, still often find it relatively difficult to get access to financing. Some financial disintermediation has occurred as larger firms seek capital abroad. In a slow and ongoing consolidation process, the number of banks decreased from 28 in 1997 to 21 in 2001, of which four foreign subsidiaries and one foreign bank branch office. The banking sector has been characterised by a lack of competition and high concentration, with the two largest and still predominantly state-owned banks, NLB and NKBM, accounting for a 40% market share and 41% of bank assets. Both operating income to expenses and operating expenses to total asset ratios suggest relative efficiency. Partly due to an interbank agreement capping deposit rates, interest rate margins had been high.

Recently, competitive conditions have been improving although the process has not been completed yet. Some smaller banks were sold to foreign banks and in October 2001, the government adopted a programme on the sale of its majority share of the Postal Bank of Slovenia, a small bank with a market share of around 2%. In May 2001, after long delays, the government adopted a privatisation programme to sell NLB and NKBM. Both banks hold relatively good credit ratings. The privatisation was launched in September 2001 and although there has been interest from various renowned foreign strategic investors, the government interrupted the privatisation process of NKBM and the sale was halted as

political resistance increased and conditions were judged to be unsatisfactory. The government still intends to sell NKBM, but it is not yet clear when and under what conditions. The privatisation of NLB went ahead but under altered conditions introduced by the government during the privatisation process, causing one of the foreign bidders to withdraw. In August 2002 the BoS approved the minority share sale but the decision has been challenged at the Constitutional Court. In a move that further improved competitive conditions, in 2001 NLB withdrew from the inter-bank agreement that regulated interest rates, causing interest margins to decrease. In December 2001, the Government initiated a significant first positive step toward de-indexation of interest rates (TOM) which used to artificially support bank profitability. However, there is no specific timetable for further abolition of the TOM. New accounting standards were also introduced in 2002, providing for the abolition of indexation and revaluation mechanisms.

The slow process of ownership transformation has not facilitated a rapid development of other financial institutions that could compete with banks and deepen financial intermediation. The life insurance market is small, partly due to the generous social security system, although current and further pension reform is expected to increase incentives for private pension savings. The insurance sector has remained closed and largely unstructured, dominated by one state-owned company that accounts for about half of life and non-life premium incomes. Some restructuring and consolidation is ongoing in the sector through a process of mergers, which began in 2000. Long-awaited privatisation was to take place following adoption of the law on ownership transformation of insurance companies. This law will determine the share of socially-owned capital in insurance companies to be transformed into state capital and then to be privatised. After the Constitutional Court annulled the validity of the law in May 2001, the government presented a revised law that was adopted by parliament in May 2002, but has been challenged in Court again. The securities market is thin and total turnover at the Ljubljana Stock Exchange (LJSE) has remained limited (29% of GDP), despite high growth. The LJSE has made considerable efforts to become more attractive through, *inter alia*, modernisation of electronic systems and developing regional links and co-operation with other stock markets. Firms have not yet started to extensively use the stock exchange to raise capital because of high costs and a number of remaining structural problems, including tax discrimination against equities, a bias for cash against equities in enterprise take-overs, and the slow privatisation and restructuring process. Foreign participation in the stock exchange was made easier with the abolition in July 2001 of restrictions on foreign investment and the share of foreign investors in turnover has increased since then from 8% to – a still modest – 12%. The size of the bond market, dominated by BoS bills, stood at 8% of GDP by end-2001, an increase of 40% over the previous year.

The financial sector appears generally robust, while capital liberalisation and increased domestic and foreign competition are changing the operating environment. Remaining capital restrictions on short-term capital flows have been reduced further. On 1 January 2002 the Bank of Slovenia eliminated all further restrictions on capital flows that are in its jurisdiction¹⁰. With the liberalisation of capital movements the domestic financial sector can rapidly integrate with international markets. While this, together with the privatisation in the banking sector and the expected privatisation in the insurance sector

¹⁰ With the exception of restrictions regarding the opening of individual bank accounts abroad. These will be lifted prior to Slovenia's entry into the EU at the latest.

should increase competition in the domestic market, it could also impact on the stability of the sector if rigidities are not addressed. The framework for prudential supervision of the financial sector has been reformed to make it more consistent with international best practices and the EU *acquis*.

The capacity to cope with competitive pressure and market forces within the Union

The 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 before accession. Both the volume and the range of products traded with EU Member States provide evidence of such integration.

Slovenia has achieved a sufficient degree of macroeconomic stability to allow economic agents to make decisions in a climate of stability and predictability. It has a solid track record of macroeconomic stability and market mechanisms guarantee an efficient allocation of resources. This creates the basic conditions for coping with competitive pressures. The remaining challenges are to bring down the relatively high inflation rate and to further privatise and consolidate the financial sector.

The labour force is well educated and has relatively high productivity. Labour productivity has been gradually catching up with EU levels and stood at 74% of the EU average in 2001. The reallocation of labour from low value-added activities to activities with a higher technological content poses challenges in terms of matching qualifications, although this has improved somewhat as the education level of employed persons has increased. Currently, nearly 17% of the labour force completed post-secondary education (20% in the age group 25-29) while 64% have secondary education, with the remainder having basic education only. The government has introduced employment action plans (the National Programme for Labour Market and Employment) which aim to address the unemployment problem in groups with low employment opportunities and to increase education levels, and which came into force in November 2001.

Slovenia has developed a good infrastructure and achieved relatively high and stable investment rates. In the period 1997-2001, the investment-to-GDP ratio on average reached 25.4%, with a peak of 27.4% in 1999. With FDI inflows averaging only 1% of GDP, FDI has contributed only marginally to investment and growth in this period. These levels have clearly been below Slovenia's potential, due to slow structural reforms and the reluctance to privatise what are perceived as key enterprises to foreign investors. Nevertheless, 2001 saw a marked increase to 2.3% of GDP, due to foreign acquisitions in the banking and telecommunication sectors. Research and development (R&D) expenditure hovered around a relatively high 1.5% of GDP. Slovenia's participation in the 5th Framework Programme is encouragingly strong, and in July 2002 the government adopted a bill on R&D to promote research as a key part of the development policy. R&D is mostly concentrated in manufacturing, with an increasing share financed by business.

Restructuring of the enterprise sector has made progress. Enterprise restructuring was slow, but from 1998 onwards the pace of structural reform accelerated somewhat, while companies have on average been improving their performance since the Opinion. Although after three years of profits, companies reported a net loss of €1.3 billion for 2001, this is mainly accounted for by a revaluation of assets in state companies operating in the mining and the electricity sector. Corrected for this revaluation, a net profit of €12 million emerges. Productivity, capital and value added per employee in the economy have all increased since the Opinion, notably in manufacturing and construction. The best results were recorded among publicly traded companies with concentrated (foreign or domestic) ownership, while state-owned companies were the least profitable. Slovenian industrial policy has been largely brought in line with the established principles and aims of EU industrial policy. The steel restructuring programme has been proceeding well and the companies of the Slovene Steelworks Group made a profit in 2001. Since the Opinion, significant restructuring of the large textile, clothing, and leather and footwear industries has been taking place. In July 2001 the government approved a new strategy for economic development, emphasising the transition to a knowledge-based society, increased restructuring and competitiveness of companies, the development of an efficient financial system and economic infrastructure and the reduction of regional disparities. Implementation of this programme has continued in 2002.

Over the period 1997-2001 the share in GDP of manufacturing and agriculture decreased somewhat, while the share of services inched upward. Within manufacturing, activities with low value added still tend to dominate the industrial structure, partly as a consequence of the slow privatisation method. At the same time, agriculture declined by more than one percentage point to 3.1% of GDP by 2001.

Large-scale enterprises still dominate, and SMEs have become less important in the economy. Largely as a result of restructuring and subsequent higher growth in large companies, the role of SMEs has gradually decreased since the Opinion. By 2001, SMEs accounted for less than 29% of total revenues and an employment share of 37%, down from 38% and 41%, respectively, in 1997. The situation in the SME sector has consolidated in recent years with no significant changes in the structure or types of business. The trend of establishing new companies has slowed down considerably in the last few years and, while large companies have recorded notable growth in employment, employment in small companies is expanding only very slowly. Slovene SMEs are still having some transitional problems and there are very few innovative knowledge-based hi-tech companies, due to administrative obstacles, relatively difficult access to R&D and financial resources, while business-related information is dispersed and is often not sufficiently relevant for SMEs. The authorities have been making significant efforts to ameliorate the situation. In April 2001, the Programme of Measures to Promote Entrepreneurship and Competitiveness 2002-2006 was adopted. It focuses on measures and instruments of development policy to promote the entrepreneurial and small business sector. In 2002, 'one-stop shop' information centres for entrepreneurs to set up businesses are being introduced. The efforts to improve inter-ministerial co-ordination and the relations between the public administration and the business community should be strengthened in order to improve policy and better prepare the SME sector for the post-accession period as well.

The role of government policy in shaping the competitiveness of the economy is still quite large but it has been changing gradually towards a more market-based approach. The government sector share in the economy declined only in 2000 from 40% to a still high

35% and the overall economic and political role of the public sector in industry is still very important. According to estimates by IMAD the state directly or indirectly still controls almost half of the economy. Slovenia has a relatively liberal trade regime and is continuing to liberalise its trade policy. In allocating state aids, Slovenia follows EU state aid rules. There has been progress in improving transparency and monitoring, and the closure of the Slovene Development Corporation will be an important positive step in that process. Since 1999, the Competition Protection Office (CPO) has been increasingly active in implementing anti-trust rules. Nevertheless, it should be strengthened as the rulings and fines have often not been enforced in courts and the low level of fines remains an insufficient deterrent. Industrial policy has been largely brought in line with EU industrial policy.

Trade integration with the EU remains at a high level. As a small open economy, the total trade-to-GDP ratio is high at 121% for 2001. The EU is by far Slovenia's most important trading partner, with average export and import shares of 64% and 68% respectively for the period 1997-2001. These shares are declining as trade with traditional regional markets has developed rapidly in recent years as the conditions in these markets have stabilised. By 2001, the other successor States of former Yugoslavia accounted for 17% of exports and 5% of imports. The main export product categories include machinery and transport equipment. Export growth is mainly driven by firms with foreign or strategic owners.

Productivity has clearly increased. Labour productivity over the period 1997-2001 increased from 67% of the EU average to 74%, an unambiguous improvement. At the same time, the real effective exchange rate (CPI deflated) more or less remained constant. Despite an improvement in both price and cost competitiveness of Slovenian manufacturing as a result of productivity growth and modest wage rises, Slovenia's market shares in its main trading partners tended to decline marginally, except in 2001, while it expanded in other markets. After the record year 1998, market shares in the EU of most industrial product groups started to wane, although there were notable exceptions such as transport equipment and clothing. The high export growth achieved over this period can hence mainly be attributed to market growth rather than an improvement in competitiveness.

2.4. General evaluation¹¹

The 1997 Opinion already acknowledged the substantial reform efforts undertaken by the Slovenian authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, economic performance has improved. Macroeconomic stability has been achieved, reforms have deepened while the Slovenian authorities' commitment to the economic requirements of EU accession has been sustained.

Hence, it is concluded that Slovenia is a functioning market economy. The continuation of its current reform path should enable Slovenia to cope with competitive pressure and market forces in the Union.

¹¹ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

Improvements can be made on reducing the inflation rate by the further elimination of indexation schemes and by directing the macroeconomic policy mix more convincingly towards inflation reduction. The competitiveness of the economy would be supported by speeding up structural reforms, such as the final liquidation of the Slovene Development Corporation and further privatisation in the financial sector.

3. Ability to assume the obligations of membership

Introduction

This section addresses the question of Slovenia's ability to assume the obligations of membership – that is, the legal and institutional framework, known as the *acquis*¹², by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2001 Regular Report, this section seeks to provide an overall assessment of Slovenia's ability to assume the obligations of membership, and of what remains to be done. Furthermore, it includes an evaluation of Slovenia's track record since the 1997 Opinion. It also provides, for each of the negotiating chapters, a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted.

This section is structured in accordance with the list of 29 negotiating chapters, and incorporates an assessment of Slovenia's administrative capacity to implement the *acquis* in its various aspects. Slovenia's progress in translating the *acquis* into its official language is assessed in a separate section.

In December 1995, the Madrid European Council remarked on the need to create the conditions for the gradual, harmonious integration of the candidate countries, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of effectively incorporating Community legislation into national legislation, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential precondition for creating the mutual trust indispensable for future membership.

In June 2002, the Seville European Council repeated how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level. Building on the assessment of Slovenia's administrative capacity provided in the 2001 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures required for implementing the various aspects of the *acquis*.

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

"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. More generally, further administrative reform will be indispensable if Slovenia is to have the structures to apply and enforce the acquis effectively."

In the 2001 Regular Report, the Commission found that :

¹² A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Slovenia's application for EU membership.

"Since the last Regular Report, Slovenia has made good overall progress in transposition and implementation of the acquis. It has made significant progress in the areas of company law, agriculture, transport, energy, culture and audio visual and telecommunications. However, only limited progress has been made in other areas, notably on regional policy, free movement of persons, social policy and employment, and consumer and health protection. It has continued to strengthen the administrative capacity, especially in the areas of free movement of goods, telecommunications, culture and audio-visual, and internal financial control.

Slovenia has made good progress since the last Regular Report in adopting and implementing legislation in key areas of the internal market acquis. Substantial legislative progress has been made in company law and the legislative framework is now nearly complete. Slovenia should now focus on implementing the new provisions on intellectual and industrial property rights adequately. Good progress has also been made in completing the legislative framework for free movement of goods, and attention should now be given to strengthening the institutional set-up, including the newly created Standardisation Institute and the market surveillance systems. In the reporting period, Slovenia made substantial progress in removing restrictions to free movement of capital, but this process remains to be completed according to the timetable set by the government. Progress has also been achieved in freedom to provide services and alignment is advanced. The supervisory institutions in this area should be further strengthened. Although few new developments occurred in the area of competition policy, Slovenia's preparations in this area are already advanced and it should continue to focus on establishing a good track record of enforcement. Little progress has been made in the reporting period in the area of free movement of persons and Slovenia should speed up alignment especially on mutual recognition of professional qualifications and on citizen's rights.

Concerning taxation, Slovenia has continued to make steady progress and has now met its commitment on transformation of the duty free shops. It is important that Slovenia develops its IT systems to allow for the exchange of electronic data with the Community and its Member States.

Very good progress has been made in the agriculture area, notably by adoption of the new veterinary, plant health and plant protection acts. Priorities should now include strengthening of the administrative capacity, completion of CAP management mechanisms, and setting up of adequate phyto-sanitary and veterinary inspections .

Slovenia has made significant progress in legislative alignment in transport through adoption of the key aviation, maritime and road transport laws. It has continued to make progress in preparing for accession in the energy sector, especially by opening up the domestic electricity market.

Slovenia has made very little progress since the last Regular Report in preparing for accession in the area of regional policy. The preparations for implementation of the structural funds should be speeded up as a priority. Progress has also been limited in the reporting period in the area of employment and social affairs where adoption of the Employment Relations act has been delayed further.

The level of alignment in the environment sector is already high and efforts should now be focussed on adoption of the remaining key legislation in the areas of water quality,

Genetically Modified Organisms (GMOs), and radiation protection. Little progress has been made in the reporting period in the area of consumer protection and substantial efforts are required especially in the area of non-safety related measures.

Slovenia has taken a substantial step forward towards completing legislative alignment and ensuring the implementation of the acquis in the telecommunications, culture and audio visual sectors by adopting key legislation and setting up the Agency for Telecommunications and Broadcasting.

Some progress has been made in the field of justice and home affairs, notably though the adoption of the Schengen Action Plan and reinforcement of staff for processing asylum applications. Slovenia should continue its efforts to improve its capacity and infrastructure for border control, create adequate facilities for asylum seekers separate from the centre for illegal immigrants and adopt the remaining secondary legislation.

Slovenia has already reached a good level of alignment in the customs area and should now focus on completing legislative approximation and strengthening of its administration through the on-going reform, including development of IT systems so as to allow for the exchange of computerised data between the EC and Slovenia.

Good progress has been made in the area of external financial control through adoption of the new law on the Court of Audit and preparations are already advanced in this area. Attention should now be given to strengthening public internal financial control.

Slovenia's administrative capacity for the implementation of the acquis has been enhanced. Since the last Regular Report, significant progress has been made with the establishment of the implementing, supervisory, regulatory institutions in the areas of free movement of goods, telecommunications, culture and audio-visual. Most of the institutions necessary for the implementation of the acquis are now in place and attention should now be focussed on providing them sufficient resources to carry out their work. Administrative capacity needs to be developed in the area of management of the structural funds. An independent supervisory agency still remains to be effectively established for data protection. Further efforts are also required in establishing the necessary administrative capacity to ensure sound, efficient and controllable management of EC funds.

Slovenia has met a large part of the short-term Accession Partnership priorities in the areas of economic criteria, internal market, agriculture, transport, environment, employment and social affairs, and justice and home affairs. In the area of reinforcement of the administrative and judicial capacity (including the management and control of EC funds) the priorities have been met partially. It should now focus especially on the remaining short term priorities, especially related to control of EC funds. Slovenia has also made good progress in implementing a number of the medium term priorities. It should speed up its preparations in the area of economic and social cohesion and ensure fulfilment of priorities especially in the areas of the economic criteria, internal market, agriculture, and employment and social affairs."

3.1. The chapters of the *acquis*

As indicated, the following review of Slovenia's ability to assume the obligations of membership has been structured in accordance with the list of 29 negotiating chapters.

Accordingly, this section opens with an assessment of progress relating to the cornerstones of the internal market which are known as the “four freedoms”, and continues with a systematic review of progress on each of the chapters, covering all aspects of the *acquis*, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Progress since the last Regular Report

Since the last Regular Report, Slovenia has continued to make good progress in this area.

In the area of **horizontal and procedural measures**, no new developments are to be reported.

Good progress can be reported as regards the adoption of **sector-specific legislation**. In the areas covered by *New Approach Directives*, further progress has been made, with the adoption of implementing legislation on radio and terminal telecommunications equipment in October 2001 and on simple pressure vessels, pressure equipment and aerosol dispensers in February 2002. Progress continued in the field of *legal metrology*. A set of eighteen implementing acts based on the Metrology act was adopted in the third quarter of 2001.

In the area of pharmaceuticals, good progress was made. Slovenia amended the law on pharmaceuticals in January 2002, reintroducing regulatory data exclusivity with regard to clinical trials and test data supporting applications.

In the field of chemicals, Slovenia adopted the Mineral Fertilisers Act in June 2002 and implementing legislation concerning the prohibition or restriction of marketing and use of plant protection products containing certain active substances in December 2001. The National Chemicals Bureau was reorganised in April 2002.

In the area of glass, Slovenia completed the transposition of the *acquis* by adopting the order on crystal glass products in December 2001.

There have been no new developments regarding the transposition of the *acquis* on the areas of motor vehicles, detergents, explosive for civil uses, wood, toys, lifts and cableway installations to carry persons.

As regards the issue of food safety and foodstuffs legislation (*see also Chapter 7 - Agriculture*), amendments to the Act regulating the sanitary suitability of foodstuff, products and materials coming into contact with foodstuffs was adopted in April 2002. The law aims at establishing a special Office for Food and Nutrition within the Ministry of Health. The Office will be in charge of drafting national strategies and programmes for nutrition policies. Secondary legislation was adopted in the reference period, namely rules on gluten-free foodstuffs, on foodstuffs intended for particular nutritional uses, on dietary foods for special medical purposes and on infant formulae and follow-on formulae, on processed cereal based foods and on baby foods for infants and young children. A Food and Nutrition Committee is due to be set up by the end of 2002 notably to co-ordinate the activities between the various bodies involved in food safety.

As regards the development of Slovenia's administrative capacity for the implementation of horizontal and procedural measures and sector-specific legislation, the gradual improvement that began during the previous year has continued during the period under consideration. Slovenia has established the necessary horizontal institutions in the field of New and Global Approach (the Slovenian Accreditation Institute and the Slovenian Institute for Standardisation), and they are fully operational. Slovenia has currently adopted 99.5% of all CEN standards, 99% of all CENELEC standards and 91% of harmonised ETSI standards. The Directive on notification procedure for standards and technical regulations was already transposed in July 2000. The Slovenian authorities have recently set up a working group within the Ministry of Economy in charge of defining the details for the practical application of this Directive.

Since the last Regular Report, further progress has been made as regards the **non-harmonised area**. By and large, the Slovenian legislation relating to the area specified in Articles 28 to 30 of the Treaty establishing the EC, in particular the relevant decision on national measures restricting free movement of goods and the system of mutual exchange of information thereof, has been brought in line with the *acquis*. The Ministry of Economy has been given the co-ordination role for the screening of legislation and an inter-ministerial working group has been set up to that effect, and is also responsible for the co-ordination and implementation of the notification procedure, and for implementation of the regulation on the movement of goods between Member States ("strawberry regulation"). The Directive on weapons has been largely transposed.

Some progress can be recorded in the field of **public procurement**. The Law on Public Procurement Revision Procedures (remedies) was adopted in July 2002 as well as implementing legislation to the Public Procurement Act, including instructions on the list of institutions of foreign states which are competent for issuing the documents, on the opening of tenders, and on the statistical reports of awarding of public procurement. On the administrative capacity in this area, progress can be reported. 27 persons are currently working in the field of public procurement: 8 persons in the Office for Public Procurement, 5 in the Ministry of Finance, 5 in the National Review Commission (CRCS) and 9 in the technical and administrative support to the NRC.

Overall assessment

As regards sector-specific legislation, Slovenia has implemented the industrial products *acquis* in the following sectors: medicinal products for human use (pharmaceuticals), medical devices (with the exception of two directives), cosmetics (with the exception of one directive), legal metrology and pre-packaging, low voltage, electromagnetic compatibility, machinery, personal protective equipment, gas appliances, recreational crafts, textiles, glass, footwear, standardisation and notification procedure, modules for conformity assessment and rules on CE marking, IDA II (Interchange of Data between Administrations), late payment, GLP (good laboratory practice in the field of chemicals) and drug precursors (with the exception of one directive). Slovenia has partially implemented the *acquis* in the fields of chemicals, fertilisers, veterinary medicinal products, ATEX (equipment use in explosive atmosphere), pressure vessels, construction products and radio and telecommunications terminal equipment. Slovenia should make special efforts on implementing the *acquis* in the fields of motor vehicles, detergents, explosives for civil uses, wood, toys, lifts and cableway installations to carry persons, where little progress has been made.

With regard to Slovenia's administrative capacity, the horizontal infrastructure related to New and Global Approach principles is in place and in line with the *acquis* (the Law on General Safety of Products, the Law on Standardisation, the Law on Technical Requirements for Products and Conformity Assessment and the Law on Accreditation). The new Standardisation Institute (SIST) has been fully operational since September 2001 and the Accreditation Institute (SA) has been fully operational since May 2001. Further efforts are needed to reinforce the administrative capacity, notably of the conformity assessment bodies and laboratories in the field of the New and Global Approach. The administrative capacity in the old approach sectors has been reinforced, notably in the fields of chemicals through the reorganisation of the National Chemicals Bureau in April 2002, legal metrology, cosmetics and explosives for civil use and the administration should be ready to perform its tasks. Although the type-approval activities in the field of motor vehicles have been moved to the Directorate for Roads of the Ministry of Transport in May 2001, further administrative strengthening in this field is needed. However, the Slovenian authorities aim to start implementing the entire motor vehicles *acquis* by the end of 2002. Market surveillance bodies need to be further strengthened to ensure better co-ordination between the national authorities responsible.

As regards *foodstuffs*, Slovenia should now ensure that the remaining *acquis* is adopted as foreseen in the course of 2002 and that its provisions are properly implemented. By the end of 2002, the Office for Foodstuffs and Nutrition is scheduled to be in place and is due to have also key functions in the field of genetically modified food. The level of enforcement concerning the official control of food hygiene is adequate even if the implementation of HACCP (Hazard Analysis and Critical Control Point Systems) is on a voluntary basis as not all the *acquis* is transposed yet. Official controls on novel foods and genetically modified foods have not been implemented yet and additional laboratory equipment and staff are required. This is also the case regarding the future participation in the RASFF (EC Rapid Alert System for Foodstuffs and Feed), where in particular the designation of a RASFF contact point is still outstanding.

In relation with the *non-harmonised area*, Slovenia has almost completed alignment regarding the implementation of Articles 28 to 30 of the EC Treaty.

The already adopted framework legislation on *public procurement* constitutes a significant step towards alignment with the *acquis* in this area, notwithstanding some shortcomings, in particular in the areas of technical specifications, review bodies and procedures, partial transposition of the coverage of utilities and unclear notion of contracting authorities. Revisions to the Act are currently under preparation in order to address these shortcomings. As regards administrative capacity in this field, the Office for Public Procurement is due to have its staff increased to 11 persons. The public procurement sector is expected to have its staff increased to 35 persons by the end of 2002.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovenia had so far made limited progress towards legislative alignment in this area, and that considerable further work was needed. It also stated that efforts were to be strengthened to align legislation, including *New Approach* Directives. The standardisation and conformity assessment system also needed to be strengthened and a speedy adoption of the Law on Standards would help in this respect. Human resources, skill and institution building equally needed

to be upgraded. On public procurement, rules on selection and award criteria needed to be clarified, the system of legal remedies was found not to be compatible with the EC requirements, and utilities sector seemed not to be covered. However, the Opinion concluded that, provided efforts were increased, free movement of goods could be achieved in the medium term.

Since the Opinion, progress has been substantial, both in terms of transposition and with regard to the establishment of the necessary administrative capacity. Slovenia is now at an advanced stage in terms of transposition of the *acquis* in the field of free movement of goods, and administrative capacity is well developed but needs to be further reinforced.

Negotiations on this chapter have been provisionally closed. Slovenia has been granted a transitional period for the renewal of marketing authorisations for pharmaceutical products until 31 December 2007. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on completing the introduction of implementing legislation in line with the *acquis*, continuing transposition (notably in the area of sectoral legislation, with a special focus on food safety and foodstuffs legislation), ensuring systematic screening of legislation in the non-harmonised areas, and developing adequate administrative capacity in particular in terms of number of staff.

Chapter 2: Free movement of persons

Progress since the last Regular Report

The current reporting period has seen further alignment with Community provisions, and preparations for complete alignment, as well as for the establishment of the required administrative structures, have continued.

In the area of **mutual recognition of professional qualifications**, Slovenia has advanced considerably in the transposition of the *acquis*. The law on the recognition of EU professional qualifications for practising professions in Slovenia was adopted in February 2002. It establishes the recognition of all qualifications.

Significant progress can be reported on **citizens' rights**. In May 2002 Slovenia adopted the election legislation package that will govern the exercise of citizens' rights in respect of EU nationals. With the adoption in May 2002 of the law on local elections, EU citizens with a permanent residence in Slovenia will have active and passive voting rights in local elections upon Slovenia's EU membership. In addition the law on political parties was amended in May 2002 in order to give EU citizens equal rights to participate in domestic political parties.

In the area of **free movement of workers**, preparatory work has continued to facilitate Slovenia's participation in the European Employment Services network (EURES).

Slovenia has continued to strengthen bilateral relations with the Member States with a view to the future **coordination of social security** matters and development of institutional capacity has accelerated. A bilateral agreement with Luxembourg has been ratified and a new agreement with Italy is to enter into force in the second half of 2002.

Agreements in this field have already been signed with all Member States except for France, Sweden, the UK and Spain.

Overall assessment

Slovenia is largely aligned with the *acquis* in the area of mutual recognition of professional qualifications. However, further legislative work is necessary to eliminate remaining inconsistencies with the *acquis*. Outstanding issues include alignment with EC legislation on architects and pharmacists, and clear separation of the profession of dentist from that of doctor. By accession, it has to be ensured that all Slovenia's legislation is aligned with Community rules, in particular with respect to nationality, residence and language requirements. Legislation on mutual recognition needs to be monitored to ensure that it distinguishes between academic and professional recognition and includes simpler procedures to allow the provision of services. With respect to professional qualifications obtained before harmonisation, Slovenia needs to introduce measures to ensure that all its professionals can, as of accession, meet the requirements laid down by the directives.

With the adoption of legislation on residence rights, Slovenia is now largely aligned with the *acquis* on citizens' rights. Preparations should continue, however, to adopt the amendments to the aliens act and the pending legislation with regard to voting rights.

In the area of free movement of workers, legislation is largely aligned with the *acquis*.

As regards future participation in the European Employment Services network (EURES), efforts are ongoing. Slovenia has a person responsible for preparing for its participation in the system and three experts have received training to provide technical support.

With a view to the future coordination of social security systems, Slovenia has advanced with regard to the development of sufficient administrative capacity in order to meet the requirements in the field of social security. Efforts on training and the recruitment of additional staff should continue.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovenia's legislation already recognised the principle of non-discrimination between nationals and foreigners legally residing in the country, and that training, for those professions where a minimum coordination is provided for in the directives, was broadly in line with the *acquis*, although some adaptation was still necessary. It added that policies on work permits were handled restrictively, but that legal amendments were under preparation. On mutual recognition of diplomas, some areas remained to be adjusted. From a technical point of view, adaptations of regulations were deemed necessary in the medium term.

Since the Opinion, Slovenia has made progress in aligning with the *acquis* in this area, and has further strengthened the relevant institutions, including with regard to the future coordination of social security systems. The process of bringing Slovenia's legislation and structures in relation to the free movement of persons into line with the *acquis* has developed satisfactorily and, although further efforts are required, legislative and other work has generally been carried out in a timely manner.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements in this area. Slovenia has agreed to a transitional arrangement in respect of the free movement of workers put forward by the EU. Restrictions on the movement of workers from Slovenia to the EU will apply for a minimum two-year period as of the date of accession and may remain in force for a maximum of seven years. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on the adoption of outstanding legislation with regard to mutual recognition of professional qualifications, voting rights (law on election register, law on elections of Slovene MEPs to the European Parliament), and on further strengthening institutional capacity.

Chapter 3: Freedom to provide services

Progress since the last Regular Report

Since last year's Regular Report, Slovenia has made good progress in this area.

In the field of **the right of establishment and the freedom to provide services** (other than financial services), there were no significant legislative or administrative developments.

In the field of **financial services**, with regard to the banking sector, the Bank of Slovenia continued its efforts in the reporting period towards alignment in the banking area by issuing several decisions based on the Banking Act and the Bank of Slovenia Act. The decisions concern the minimum extent of liquidity that the Bank of Slovenia must ensure, Slovenian accounting standards, the exposure of banks and saving institutions, the deposit-guarantee scheme and obligatory reserves. In February 2002, the Bank of Slovenia adopted the Action Plan for improved harmonisation with the Core Principles for Effective Banking Supervision on the basis of EC recommendations. Its conclusions pointed out that the Bank of Slovenia had made progress in banking supervision. However, it provides for certain adjustments in terms of both legislation and institutions.

In the area of insurance, amendments to the Insurance Act were adopted in March 2002 in order to eliminate problems in its implementation, in particular by cancelling former restrictions on insurance companies' capital adequacy and equalisation reserves. The Ownership Transformation of Insurance Companies Act was adopted in May 2002 establishing the ratio between the share of state-owned capital and private capital. The Insurance Supervisory Agency continued steady progress towards alignment with the *acquis* by issuing an important set of secondary legislation on the basis of the Insurance Act, such as decisions on reports and notifications by insurance companies, on auditing revision and reports, and on forwarding insurance statistics.

With regard to investment services and securities markets, amendments to the Law on the First Pension Fund and the Transformation of Authorised Investment Companies were adopted in June 2002 in order to transform authorised investment companies into either joint-stock or regular investment companies. The Securities Market Agency issued secondary legislation on financial statements and bookkeeping rules for mutual pension funds. The Agency has recruited additional staff in April 2002.

Concerning the **protection of personal data, the free movement of such data** and the **information society regulations**, no new developments can be reported.

Overall assessment

Concerning non-financial services, approximation with the *acquis* has been achieved to a large extent. However, Slovenia should now focus on the adoption of the act amending the Environment Protection Act regulating the granting of concessions for exploitation of natural resources to foreigners, the act amending the Law on the Implementation of Public Interest in the Field of Culture, and the act amending the Law on Agricultural Land.

Slovenia still has to carry out a screening of its legislation, in particular with regard to Articles 43 and 49 of the EC Treaty, in order to identify and eliminate any remaining restrictions in the field of right of establishment and freedom to provide services and in the field of information society services. The transposition of the e-commerce Directive is still pending, and the Directive on broadcasting via satellite and retransmission via cable has been adopted but needs to be amended.

A substantial level of approximation with the *acquis* has been achieved in financial services, and a clear timetable for market opening has been set. There are still concerns as regards the preparedness of the sector for increased competition, since the market structure is still characterised by a combination of persistent dominant positions and a number of scattered small enterprises, and the ownership structure has only evolved to a limited extent.

As regards the banking sector, the amendment of the Banking Act in July 2001 and the secondary legislation stemming from this amendment have completed the harmonisation of the legal framework with the relevant *acquis*. Banking supervision has been given additional tasks following enforcement of the Banking Act, but recruitment of new staff is needed.

In the insurance sector, Slovenia has completed the transposition of the *acquis* on life and non-life insurance and on insurance supervision. The administrative capacity needs to be reinforced. Slovenia should now complete the ownership transformation process and increase competition in the domestic market. A system to deal with complaints also remains to be established. Compliance as regards motor insurance and insurance accounting still has to be confirmed.

In the field of investment services and securities markets, progress has been made with the decisions issued by the Securities Market Agency. A small number of further amendments to the legislation are needed to comply with the *acquis*. The Security Market Agency should have its enforcement powers reinforced and have authority to impose fines. The transformation process of privatisation funds should be speeded up. The Slovenian Law on Investment Funds and Management Companies of 1994 is not fully in line with the UCITS (Undertakings for Collective Investment in Transferable Securities) Directive. Core provisions such as a depositary are missing, and tax impediments were found.

The independence of all three supervisory authorities from any political influence must be ensured.

As regards the protection of personal data and the free movement of such data, despite the changes introduced by the Act of June 2001, the Data Protection Act still has a number of serious shortcomings and therefore further amendments will be needed to bring the Act in line with the *acquis*. Furthermore, Slovenia needs to reform the system of the national supervisory authorities for data protection. Two authorities have been entrusted with similar tasks. The Data Protection Inspectorate is part of the Ministry of Justice and hence not an independent authority. The Ombudsman, on the other hand, is independent but has not been endowed with sufficient powers yet. None of them fulfils the requirements of the relevant Directive that the supervisory authority acts independently and has a number of powers at the same time.

Conclusion

In its 1997 Opinion, the Commission concluded that the *acquis* in this sector had already been to a considerable extent transposed, but important provisions still remained to be adopted. Full free establishment in the areas of banking, securities and insurance, in particular with regard to branches of foreign institutions, still had to be adequately introduced in the sectors' legislative frameworks and duly implemented. As regards insurance, privatisation needed to be speeded up and the insurance and reinsurance sector opened up to EC operators and to foreign investment. The supervisory functions in the sector were expected to be strengthened by the new legislation under preparation. However, provided harmonisation proceeded as planned, no major difficulties were foreseen in achieving full approximation in relation to free movement of financial services in the medium term.

Since the Opinion, Slovenia has made steady progress in most areas of the chapter, both in terms of legislation and in bolstering the administrative and regulatory infrastructure required to supervise the financial services sector. Slovenia's alignment process is now well advanced, but some further legislative alignment is still needed with regard to some aspects of the *acquis*. Institutional structures are largely in place, although those related to data protection do not yet entirely meet the requirements of the *acquis*. Administrative capacity needs to be strengthened in a number of areas.

Negotiations on this chapter have been provisionally closed. Slovenia has been granted two transitional arrangements concerning savings and loans undertakings established before 20 February 1999 (until 31 December 2004), and concerning the deposit guarantee scheme (until 31 December 2005). Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on completing alignment in the areas of non-financial services, investment services and securities markets as well as protection of personal data.

Chapter 4: Free movement of capital

Progress since last Regular Report

Further progress has been made in this area since the last Regular Report.

In the field of **capital movements and payments**, the Bank of Slovenia lifted several restrictions regarding money transactions pursuant to the Foreign Exchange Act over the reporting period. Among other things, restrictions on the acquisition of securities abroad by residents and on the acquisition of securities in the capital market of Slovenia by non-residents were lifted. The opening of foreign exchange accounts abroad by Slovenian legal entities was liberalised. Furthermore, the obligatory custody accounts for non-residents regarding the acquisition of short-term securities were abolished.

Regarding **payment systems**, Slovenia adopted the Payment Transactions Act in March 2002. The law aims to finalise the reform of payment transactions and partially transposes the relevant *acquis*.

In September 2001 a new Prevention of **Money Laundering** Act was adopted, upgrading the system of money laundering prevention and detection. Amendments were introduced in June 2002 to extend the obligations outlined in the law to further professions. The powers of the Office for Money Laundering Prevention (OMLP) were strengthened to enable it to launch investigations on its own initiative as well as at the request of state institutions such as the police and the financial supervisory bodies. Also its access to relevant databases was improved.

Overall assessment

In the field of capital movements, liberalisation in line with the *acquis* is heading towards completion. Some restrictions still remain in the area of foreign direct investments (e.g. concerning investment funds and management companies, gambling, investigation services and exploitation of natural resources) and in the area of money transactions (i.e. concerning the opening of accounts abroad by resident natural persons). The acquisition of real estate by non-residents must be liberalised by accession at the latest.

Regarding payment systems Slovenia has already partially transposed the relevant *acquis* by adopting a decision on the conditions and methods for carrying out international transactions. However, further alignment with the directives on cross-border credit transfers and on settlement finality as well as the Recommendation on electronic payment instruments is still necessary. In addition, an out-of-court redress scheme needs to be established to deal with the settlement of complaints between banks and their customers. In 1998 a real time gross settlement (RTGS) system for inter-bank payments was introduced. The payment and securities settlement infrastructure is sufficient.

The situation in Slovenia regarding the prevention of money laundering is very good. The legislation implementing the first money laundering directive as well as the major part of the second directive is already in place. The OMLP functions well and participates actively in international efforts against money laundering. The co-operation between the relevant bodies within Slovenia is good.

Conclusion

In its 1997 Opinion, the Commission concluded that liberalisation of capital movements was slow. Despite substantial progress in the approximation of legislation, reflecting the stipulations of both the White Paper and the Europe Agreement, recent measures adopted by the Bank of Slovenia had caused a set-back to the liberalisation efforts. The Commission added that the government was aware of these problems and had the

intention to introduce some capital liberalisation measures, including the possibility for foreign banks to open branches in Slovenia, through a new Foreign Exchange Act. However, under the current framework of monetary and exchange policies, there was little prospect of an important move towards further capital liberalisation.

Since the Opinion, Slovenia has made significant progress, both in aligning its legislation and in developing the necessary administrative structures and is now well advanced in this area. Restrictions in the area of money transactions have been nearly completely lifted and liberalisation of foreign direct investments is well advanced.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is meeting the majority of commitments it has made in the accession negotiations in this field. However, a delay has occurred on amending the Investment Funds and Management Companies Act. This needs to be urgently addressed.

In order to complete preparations for membership, Slovenia's efforts now need to focus on accomplishing alignment in the areas of foreign direct investments and payment systems, eliminating the remaining restrictions regarding money transactions and completing the administrative structures in the area of payment systems.

Chapter 5: Company law

Progress since the last Regular Report

Since last year's Regular Report, Slovenia has made further progress in the areas of company law and the protection of intellectual and industrial property rights.

Regarding **company law and accounting** as such, no particular developments are to be reported during this period.

As regards the protection of **intellectual and property rights**, further legislative progress was achieved by adopting provisions contained in international conventions. The European Patent Convention was ratified in July 2002. The Trademark Law Treaty of Geneva (1984), which applies to goods (trademarks) and services (service marks), was ratified in November 2001. The Law on the Ratification of the Patent Law Treaty and Regulations under the Patent Law Treaty was adopted in February 2002, with which Slovenia acceded to the Patent Law Treaty signed in 2000 in Geneva. The Law on the Ratification of the Geneva Act of the Hague Agreement concerning the international registration of industrial design, together with secondary legislation based on this Agreement, was adopted in February 2002.

A set of secondary legislation was adopted during the reference period based on the Law on Industrial Property. This covered the fee rates for acquiring and retaining industrial property rights, register of applications, industrial property rights and certificate on prior rights, contents of the application for the registration of a trademark, contents of the application for the registration of a model, contents of patent application and the procedure for shared patents, registration of companies and other legal entities, and extension of the European patent validity to Slovenia.

As regards enforcement of intellectual property rights, the Act Regulating Customs Measures Relating to Infringements of Intellectual Property Rights was implemented in November 2001 (*see chapter 25 Custom union*). The Act lays down new tasks of the Customs Service in preventing counterfeit and pirated goods as well as goods bearing counterfeit trademarks or geographical indications from entering or leaving the customs territory of Slovenia. Training has been extensively provided to Slovenia's customs officers during the reference period.

In relation to the **Regulation replacing the Brussels Convention** on jurisdiction and enforcement of judgements in civil and commercial matters and the **Rome Convention** on the law applicable to contractual obligations, no particular developments took place.

Overall assessment

As regards Slovenia's company law, progress made in this sector can be considered as satisfactory. Slovenia needs to ensure that its legislation is fully brought into line with the *acquis* in particular with regard to the maximum duration of the companies' registration procedure. Slovenia shall also ensure that court fees for copies from the register are just cost-covering and therefore in line with the *acquis*.

Slovenia's legislation is to a very large extent in line with the *acquis* on accounting law.

As far as administrative capacity is concerned in the field of company law and accounting, Slovenia has the necessary institutions already in place. However, Slovenia should ensure that its Institute of Auditors is sufficiently prepared to produce accounting standards. The Institute of Auditors is the responsible body in the field of accounting and auditing and issues accounting standards in accordance with the Act on Accounting and it is a private institution vested with public powers in the domain of auditing of financial statements and, likewise, in the domain of the adoption of auditing, internal auditing, accounting, business finance standards. The Institute for Revision is responsible for registration of certified auditors, contents of the audit examinations, code of ethics including independence, establishing standards of auditing, disciplinary action and sanctions.

In the field of industrial and intellectual property rights, Slovenia already provides for a relatively high level of industrial property protection. Slovenia's trademark and patent law is very advanced, and the protection of copyright and related rights has improved, in particular after the adoption of the Act Amending the Copyright and Related Rights in 2001. Slovenia is largely in compliance with the *acquis* and is already implementing parts of the Directive on Copyright in the Information Society. However, the legislation does not yet satisfy all requirements set out in the Directive. Therefore, further harmonisation is needed to take account of the provisions laid down in the Directives on copyright in the Information Society and on the Artists' resale rights. Slovenia has acceded to all relevant conventions in the field of copyright and related rights, including the two 1996 WIPO Treaties.

Supplementary protection certificates are available for patents applied for after January 1993 in Slovenia. Provisions related to the Community Trademark are already provided for in the new Industrial Property Act. By contrast, Slovenia will have to align its legislation concerning the new Community design system. The above-mentioned

ratification of the European Patent Convention will also require various amendments to the Patent Law part of the Industrial Property Act.

Concerning administrative capacity in this field, the responsible authority is the Intellectual Property Office, a body within the Ministry for Science and Technology. At the moment 50 persons are employed in this Office. Examiners from the Slovene Intellectual Property Office received training at the Office for Harmonisation in the Internal Market (OHIM) headquarters in Alicante. The responsible court for violations of industrial property in Slovenia is the District Court in Ljubljana. In terms of staff the administrative capacity seems adequate in this field.

Piracy and counterfeiting remain a matter of priority. Further efforts are required to strengthen law enforcement capacity, especially as regards border controls and combating piracy and counterfeiting (60% of software is estimated by private industry sources to be pirated and pirated videos continue to be a significant problem). Particular attention should be paid to the effectiveness of the administrative and judicial bodies involved in enforcement, such as the customs services, the police and the judiciary, in particular by improving co-ordination among them. Targeted training for both copyright officials and enforcement officials, including judges and prosecutors, should continue.

Conclusion

In its 1997 Opinion the Commission concluded that in the fields of company law and accounting, no problems were foreseen, assuming the legislative timetable proceeded as planned, including the repeal of the discriminatory provisions in company law referred to above.

Since the Opinion, Slovenia has to a large extent achieved alignment with the *acquis* in the area of company law, and transposition in the field of industrial and intellectual property rights is continuing at a steady pace. Furthermore, gradual progress has been made with strengthening administrative capacity.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements in this area and has agreed to the EU proposal relating to industrial property rights for pharmaceuticals products and Community Trademark. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on ensuring full alignment with the *acquis* along the lines set out above, and intensifying measures to combat piracy and counterfeiting, strengthening border controls and, more broadly, further improving coordination between enforcement bodies (customs, police, judiciary).

Chapter 6: Competition policy

Progress since the last Regular Report

Since last year's Regular Report, Slovenia has made progress in this area.

In the **anti-trust** field, the Slovenian legislation is largely compatible with the *acquis* and no new legislative developments have occurred.

The Competition Protection Office, the national anti-trust authority in Slovenia, has continued to build on its enforcement record over the past year. In 2001, the Office adopted a total of 49 anti-trust decisions, in the field of restrictive agreements (6), abuse of dominant position (3), and merger control (40). These led to 4 conditional approvals and prohibitions.

In the field of state aid, the Slovenian legislation is largely compatible with the *acquis*. Amendments to the Law on Economic Zones were adopted in November 2001 in order to align the fiscal incentives provided through the economic zones with the relevant EC rules. The Law on Financial Obligations relating to the Slovene Steelworks was adopted in December 2001. Implementing legislation was issued on the allocation of state aids for the rehabilitation of companies in difficulty during the preparation of their restructuring programme, and on economic zones.

The national state aid monitoring authority is the Slovenian State Aid Commission. It has a staff of nine. In 2001, a total of 38 decisions were adopted, of which 22 were on aid schemes and 16 on individual aid cases.

Overall assessment

The new Slovenian Competition Law entered into force in July 1999 and contains the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. As regards implementing legislation, Slovenia has introduced the EU's new policies on vertical and horizontal agreements.

While the Competition Protection Office is an authority with the necessary legal powers to enforce competition rules, it needs to be given the necessary resources to carry out the enforcement of the rules in an effective way. Currently, the Office employs 12 civil servants. The level of resources in the Office should be secured, and particular attention paid to increasing its staff, as well as to decreasing the turnover rate of the staff. It is essential that the Office can, on the basis of sufficient resources, continue to actively develop its activities, in particular in view of the planned modernisation and decentralisation of the application of the EU anti-trust rules, which, after accession, would bring about new important tasks and responsibilities for the Slovenian competition authorities.

In the area of anti-trust, the important challenge for the Office is to continue to ensure the effective application and enforcement of the rules. The Office should in its enforcement activities increasingly focus on the most serious distortions of competition, e.g. fight against the formation of cartels. Efforts to create a more deterrent sanctioning policy should be actively pursued.

The judicial capacity to deal with Court appeals is an important element of the enforcement of the competition rules. The level of court rulings remains low and no fines were imposed during the reporting period by the Courts. Awareness of the rules and training of the judiciary should be developed so as to ensure that the judiciary can play its role in an effective way.

The Slovenian State Aid act that entered into force in 2000 contains the basic principles of EC state aid control. Implementing legislation covers the essential *acquis*. The state aid report for 2000 follows the methodology and presentation of the European Commission's survey on state aid in the EC.

The Slovenian State Aid Commission has the necessary powers to enforce the state aid rules. In the area of state aid, the State Aid Commission should continue to ensure the effective application and enforcement of the rules, in particular in the area of rescue and restructuring aid. Special attention should be paid to ensuring that any state aid granted in connection with the privatisation of individual companies would comply with the EU state aid rules. Furthermore, the ongoing alignment programme for the existing aid measures should be completed as planned.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovenia's level of approximation of anti-trust legislation was not satisfactory but that, should the Law on Competition be adopted, the process of approximation would be close to being completed. In the field of state aid the Opinion stated that the requirements as regards transparency and monitoring of state aid had not yet been fulfilled, requesting Slovenia to make a substantial effort in order to meet the requirements in the medium term.

Since the Opinion, Slovenia has made steady progress in adopting the relevant anti-trust and state aid legislation and in developing the State Aid Commission's administrative capacity. Overall, on legislative alignment, administrative capacities and enforcement record, Slovenia is reasonably advanced. However, increased attention needs to be paid to developing the enforcement of existing anti-trust and state aid rules with a view to ensuring efficient competition on the Slovenian markets.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments taken and the requirements for sufficient legislative alignment, administrative capacity and enforcement record arising from the negotiations in this field.

In order to complete preparations for membership, Slovenia now needs to focus on continuing to ensure that sufficient resources are available to the Competition Protection Office in the field of anti-trust as well as ensuring that both the anti-trust and the state aid legislation are implemented in the appropriate way with a view to ensuring efficient competition on the Slovenian markets. Slovenia should make sure that it continues to update its alignment as the *acquis* in this area evolves.

Chapter 7: Agriculture

Progress since the last Regular Report

Since the last Regular Report, Slovenia has made steady progress in the area of agriculture, both with aligning legislation and with strengthening administrative capacity. Good progress has also been made as regards veterinary and phytosanitary issues.

Agriculture in Slovenia accounted for 3.1% of gross value added in 2001, compared with 3.3% in 2000¹³. Employment in agriculture has remained steady and accounts for 9.9% of total employment.¹⁴

In 2001, overall agricultural trade¹⁵ between Slovenia and the EC showed mixed tendencies. EC imports of agricultural products originating in Slovenia decreased by 6% to €87 million. EC exports to Slovenia increased by 1% to €441 million. The trade balance in favour of the Community amounted to €354 million compared to €337.8 million in 2000. EC imports were dominated by raw hides and skins, meat and beverages, spirits and vinegar. Miscellaneous edible preparations, fruit and nuts, tobacco and meat were the main export goods from the EC.

Negotiations on new preferential trade concessions for wines and the reciprocal protection and control of wine names and spirit designations were concluded in December 2001. The new preferential trade concessions have been in force since January 2002 as an Additional Protocol to the Europe Agreement. In July 2002 the Commission and Slovenia concluded negotiations for further liberalisation of agricultural trade covering more sensitive sectors, such as cereals, where trade is currently rather low. The new concessions are envisaged to enter into force as of 1 January 2003 (*see Section A.b. – Relations between the European Union and Slovenia*).

Slovenia adopted the biennial budget for 2002 and 2003 in December 2001. A total sum equivalent to €245 million was allocated to agriculture (including rural development) from the central government budget in 2002. The share of support for rural development amounts to €67 million. €81.3 million are allocated for support schemes under the market organisations. The planned budget for 2003 amounts to €264 million.

According to the Government, by May 2002 a decision on returning property to previous owners had been made concerning in total approximately 53.5% of agricultural land and 71.5% of forests.

Horizontal issues

Since last year's Regular Report, Slovenia has made progress on implementing measures related to the *European Agricultural Guidance and Guarantee Fund (EAGGF)*. A Government decision of December 2001 confirmed the Ministry of Agriculture, Forestry and Food as the competent authority for the EAGGF. The Agency for Agricultural Markets and Rural Development (AAMRD) within the Ministry will carry out the implementation of the agricultural policy in Slovenia and will manage both EAGGF Guarantee and Guidance type of funds. The AAMRD has upgraded its administrative capacity during the reporting period with the recruitment of 18 new staff. The accreditation of the AAMRD as the SAPARD Agency has been an important step forward in this respect.

¹³ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

¹⁴ EUROSTAT Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture.

¹⁵ Source of trade figures: WTO definition of agricultural products, figures from EUROSTAT COMEXT (see U.E. 12/15: Commerce des produits agricoles 1998-2000, 1 Partie D.G. AGRI / G.2 Analyses quantitatives, prévisions, statistiques, études, 2001, pp. 10-57 et 86-89.)

Slovenia has continued to update the databases required for the implementation of the *Integrated Administration and Control System (IACS)*, both for the animal identification and registration component and for the land parcel identification system. In January 2002, 81 848 out of a total of 86 467 holdings and 90% of the total number of bovine animals were entered in the Register of Agricultural Holdings and the Central Register of Bovine Animals, respectively. Digital orthophoto plans and digital plans for land use have been established for the whole territory of Slovenia. The digitisation of the land cadastre is currently under way and should be ready by the end of 2002. At the end of 2001 the overlay digital cadastral data on land use covered 15%. 70% of the surface area is expected to be covered by the end of 2002. The whole process is scheduled to be completed in 2003.

In the area of *trade mechanisms*, Slovenia adopted the Decree on the method of distribution of quantities of goods under tariff quotas in December 2001. In addition to the “first-come, first-served” principle, the Decree introduces the auction method for rights to import under the tariff quotas for sensitive agricultural products. Additional staff has been employed in the Foreign Trade Department and the Control Service within the AAMRD and the Customs Administration, which will be responsible for the implementation of the *acquis* in this area.

As regards *quality policy*, the rules on the procedure for the recognition of denominations of special agricultural products or foodstuffs were adopted in May 2002. The Office of the Republic of Slovenia for the Recognition of Denominations of Agricultural Products or Foodstuffs, a body within the Ministry of Agriculture, Forestry and Food, was reinforced in terms of staff. The Inspectorate for Quality Control of Agricultural Products and Foodstuffs, which is authorised to carry out checks on quality of production, processing and trade in agricultural products and foodstuffs became operational in December 2001.

Direct payments for *organic farming* continued to be provided in 2002.

In December 2001, the Ministry of Agriculture, Forestry and Food nominated one person to be responsible for the operation of the *Farm Accountancy Data Network (FADN)*.

Common Market Organisations

Since last year’s Regular Report, Slovenia has made further progress in introducing a legal framework and administrative structures for the establishment of Common Market Organisations.

Concerning *arable crops*, a new Decree on the organisation of the market in cereals was adopted in April 2002, which introduces key mechanisms of the internal market, such as intervention price, intervention buying-in, storage and sale of wheat, rye, barley and maize.

The Decree on the organisation of the market in *sugar* was amended in April 2002, increasing the minimum purchase price and direct payments.

In the field of *specialised crops* preparations for the implementation of the Common Agricultural Policy (CAP) have continued. Decrees on the market organisations in fresh fruit, vegetables and olive oil, seeds of agricultural plants and hops were amended in April 2002 and align Slovenia’s legislation further with the *acquis* in this area. Moreover,

secondary legislation on the register of fruit growers in intensive orchards as well as on the quality of citrus fruit and plums has been adopted since the last Regular Report.

In the *wine sector*, Slovenia adopted a decree on the market organisation in wine grapes, must and wine in April 2002. Further secondary legislation was issued during the reporting period as regards the testing of wine characteristics, wine promotion, the designation of organisations authorised for the monitoring of grape ripening as well as for the evaluation of must, wine and other grape and wine products.

The register of olive growers and processors and the register of fruit growers are currently being set up. The register of grape and wine producers, the cadastre of vineyards as well as the register of hop fields are already in place.

As regards *animal products*, the decrees on the market organisations in beef, sheepmeat and goatmeat were amended in April 2002. Rules on the evaluation and classification of beef carcasses and half-carcasses on the slaughter line and rules on the identification of beef were adopted in November 2001. A slaughter premium for bovine animals was introduced in January 2002. An order on the identification and registration of sheep and goats was adopted in December 2001. Furthermore, the minimum price to be paid by dairies to producers was abolished by Government decree as of 1 July 2002.

The legislation on the market organisations also provides for the allocation of direct payments. In 2001, the amount of direct payments reached in average 42% of the amount of direct payments in the EU. The budget for 2002 and 2003 provides for a further increase. In 2001, funds were paid to 64 000 beneficiaries. During the reporting period, training activities in the AAMRD continued and its technical facilities were upgraded in this respect.

Rural development and forestry

Significant progress in this area was made with the establishment and accreditation of the AAMRD as the SAPARD agency in November 2001 (*see Section A.b. – Relations between the European Union and Slovenia*). Slovenia adopted several decrees and regulations which provide the basis for the implementation of the SAPARD Rural Development Programme. In addition to the SAPARD Programme, Slovenia also provides national support for rural development activities, such as support for land operations, economic diversification in rural areas, village renovation and development of agriculture-related infrastructure. Slovenia is also continuing to implement nationally funded schemes for Less-Favoured Areas and for agri-environmental measures. These measures are implemented annually by the AAMRD, Rural Development Department.

In the field of *forestry*, the Act amending the Forest Act was adopted in July 2002. This Act, among others, aims to harmonise provisions as regards part-financing of forestry measures with the *acquis*. It also regulates hunting and breeding plans, promotes the merging of forests in dispersed forestry areas and includes provisions on the purchase of afforested land by EU citizens.

Veterinary and phytosanitary issues, including food safety

Since last year's Regular Report, Slovenia has continued to make good progress in transposing and implementing the *acquis* in the **veterinary** sector.

During the reporting period, the veterinary sector in Slovenia was re-organised on the basis of the provisions laid down in the Veterinary Framework Act of 2001. The National Veterinary Institute, which serves as the national reference laboratory, was established in January 2002. The Animal Health Centres were dissolved in December 2001 and the remaining staff were reallocated to the National Veterinary Institute.

In the field of *veterinary control*, Slovenia introduced rules on the identification of animals, veterinary certificates and veterinary referral forms in November 2001, and an order increasing the charges for veterinary examinations at border crossings in March 2002. Slovenia has been connected to the Animal Disease Notification System (ADNS) as of January 2002. It joined the computerised network linking veterinary authorities ANIMO on a voluntary basis already in 2001.

Slovenia has made good progress in transposing the *zootechnical acquis* with the adoption of the Livestock Breeding Act in February 2002. Under the new legislation, the Ministry of Agriculture, Forestry and Food is the competent authority for the recognition of breeders' organisations for the individual domestic animal breeds or species. The Inspectorate for Agriculture, Forestry, Hunting and Fisheries (IAFHF) is responsible for inspections and controls in this area.

As regards *animal nutrition*, the Animal Feed Act was adopted in February 2002. This Act lays down the provisions as regards health and quality monitoring, production, trade and additives to animal feed. The Animal Feed Section, established in the Office of Nutrition, Veterinary Medicine and Zootechnics within the Ministry of Agriculture, Forestry and Food in July 2001, currently employs three staff.

Several implementing regulations have been adopted in the field of *common measures*, *animal health* and *public health* since the last Regular Report.

In the field of *animal welfare*, the Expert Council for the Protection of Animals has commenced regular work and, simultaneously, the training and registration of transporters of live animals has started. Slovenia is also implementing a national plan for upgrading food *establishments* to meet EC requirements. Establishments that propose to operate after accession have been inspected by the competent authority and plans to correct any deficiencies have been drawn up. The target to complete the upgrading is the end of 2002. This policy means that Slovenia should be on track to be compliant in this sector by the date of accession.

Slovenia adopted several decrees and regulations as regards *BSE* and *TSE*. Several new measures, also related to *animal-waste treatment*, such as separate collection of specific risk material, ban on trade in and use of processed animal proteins for farm animals and specific treatment of animal waste that presents a special risk were introduced on the basis of this legislation in the reporting period. Since February 2002, all slaughtered cattle older than 24 months are being tested for the presence of BSE. Previously, rapid prion tests for cattle over 30 months had been applied since February 2001. The number of cattle tested is broadly equivalent to that required in the EU.

In the **phytosanitary** sector, good progress has been made in the reporting period with the adoption of the remaining legislation in this area.

In the field of *plant health*, several implementing regulations have been issued on the basis of the Plant Health Act (harmful organisms) and the Plant Protection Products Act

(pesticides). Furthermore, Slovenia has aligned the lists of harmful organisms, plants and plant products subject to phytosanitary control with the lists applicable in the EU.

During the reporting period the Plant Protection and Seeds Administration (PPSA) was set up on the basis of the Plant Health Act as a body within the Ministry of Agriculture, Forestry and Food, which led to a re-organisation of the phytosanitary administration. The PPSA aims to provide the appropriate operational structures to quickly respond to the spread of plant quarantine harmful organisms in line with the EC requirements. The tasks of the PPSA include the preparation of legislation, implementation of administrative and other related technical tasks, co-ordination and exchange of information between authorities and public service contractors as well as co-operation at international level. Currently seven staff from the Ministry of Agriculture, Forestry and Food and three staff from the Plant Variety Protection and Registration Office work in the newly established body.

Under the Plant Health Act and the relevant implementing regulation the setting up of the PHYTO register and plant passports started at the end of 2001. The keeping of the register is within the competence of the PPSA. On-the-spot controls are carried out by the Inspectorate for Agriculture, Forestry, Hunting and Fisheries.

In June 2002, the Forest Reproductive Material Act as well as the Propagating Material of Agricultural Plant Species Act were adopted, which provide the framework legislation in the field of *quality of seeds and plants*.

The Plant Variety Protection and Registration Office, the competent body for *plant variety rights*, was dismantled in February 2002, and its tasks were transferred to the PPSA.

Slovenia has progressed in the establishment of the three main border inspection posts (BIPs) with Croatia. The building permit for Obrezje was obtained in April 2002 and the plans for the veterinary and phytosanitary inspection facilities were finalised.

As regards **food safety** (*see also Chapter 1 - Free movement of goods*), in April 2002 Slovenia adopted the Act amending the Act on health suitability of foodstuffs, substances and products that come in contact with food. This Act includes provisions for the establishment of the Office for Foodstuffs and Nutrition as a body within the Ministry of Health by January 2003. Among other things, the Office will be responsible for the drafting of national strategies and programmes for the implementation of food and nutrition policy. Furthermore, the Law on genetically modified organisms was adopted in July 2002, which provides for the establishment of a special commission to monitor the situation and developments in this sector.

The Inspectorate for Quality Control of Agricultural Products and Foodstuffs was established within the Ministry of Agriculture, Forestry and Food in December 2001. The Inspectorate is in charge of testing the quality of agricultural products and foodstuff at the production and at the marketing level. The Foodstuff and Nutrition Council, a professional and consulting body consisting of experts in different fields relating to food safety, was already established in March 2001.

Overall assessment

Slovenia's farm structure remains unfavourable, since it is dominated by small private farms that use over 90% of agricultural land and account for about 75% of agricultural output. This disadvantageous farm structure is reflected in the average holding size of 4.8 ha, lower production and a small share of full-time farmers. Although the apparent economic importance of agriculture is low and declining in macro-economic terms, it plays an important role in maintaining a social and territorial equilibrium. Natural conditions for agricultural production are relatively unfavourable and approximately 80% of the agricultural area is classified by Slovenia as less-favoured areas (LFAs). Denationalisation of agricultural land and forests remains slow. Slovenia should make further progress in this respect, in order to speed up the restructuring process in the agricultural sector.

In the area of **horizontal measures**, the implementation of the *acquis* concerning the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Integrated Administration and Control System (IACS) for handling of CAP expenditure is well under way. Slovenia has been introducing EC-comparable direct payments as well as comparable administrative and on-the-spot checks since 2000. However, at this stage the AAMRD does not yet have the financing and accounting structure to receive EAGGF Guarantee Funds. Implementation of all specific measures for handling of CAP expenditure, completion of the drafting of the manuals of procedure and computerisation of the system before accession remains to be done and requires increased staff resources. The AAMRD is the body responsible for the operational implementation of IACS. Databases on subsidy applications were transferred from the Ministry of Agriculture, Forestry and Food to the AAMRD administration in 2001. The data completeness check is carried out in a decentralised manner via the Agricultural Extension Services. IACS still needs to be further upgraded and formally defined before the end of 2002, in order to be fully operational upon accession. The digitalisation of the blocks has been completed. Slovenia will therefore have the possibility of testing the reliability of this system with its national schemes before accession, which should allow for adjustments if necessary. This will contribute to meeting the requirements of the *acquis* in this field. Slovenia should further continue its efforts to complete the registers necessary for the implementation of the CAP. Slovenia has been using the Farm Accountancy Data Network (FADN) on a voluntary basis since 1994.

As regards **Common Market Organisations**, Slovenia has transposed the major part of the relevant *acquis*. Slovenia will now have to concentrate on the effective implementation of the market organisations. In this respect, the Agricultural Market Department within the AAMRD needs to be substantially reinforced. Regarding the register of grape and wine producers and the vineyard register, the administrative structure is implemented in a coherent and organised way which augurs well for the management of the wine production potential. However, Slovenia will have to pay attention to implementing upon accession the EC system of planting restrictions and planting rights.

Good progress has been made in building up administrative capacity for implementing **rural development** policies, partly as a result of the accreditation of the AAMRD as the SAPARD Agency. Rural development is a high priority in Slovenia and the country has been implementing measures in this field already for several years. The scope of the nationally funded agri-environmental scheme is gradually being extended in preparation

for implementation of post-accession measures, and the nationally funded LFA scheme is being reassessed to bring it fully into line with the *acquis*. The Rural Development Department within the AAMRD seems to have adequate administrative capacity.

In the **veterinary** field, the framework legislation for the transposition of the *acquis* is in place and a substantial part of the relevant implementing legislation in the different sectors has been adopted. Slovenia will now have to focus on the adoption of the remaining legislation and on the actual implementation of the *acquis*.

The administrative capacity of the Veterinary Administration of the Republic of Slovenia seems to be sufficient. However, the structures, in particular as regards its regional offices, need to be streamlined and adapted for Slovenia's accession to the EU.

In the **phytosanitary sector**, the transposition and implementation of the *acquis* is very well advanced. The reorganisation of the phytosanitary administration in order to meet the EC requirements is under way and its capacity in terms of human resources seems to be sufficient. However, training of its staff still needs to be continued and the laboratory capacity to be upgraded.

Although some progress has been made as regards the establishment of the veterinary and phytosanitary controls at the future external borders, Slovenia needs to give high priority to the preparations for alignment with the *acquis* in this area. Lay out plans for the Border Inspection Posts have been prepared, but constructions on site have not yet started. The process must be speeded up.

With regard to **food safety** (*see also Chapter 1 – Free movement of goods*), as mentioned above, good progress has been made, in particular with the upgrading of food establishments and the alignment with the *acquis* on TSE. Good progress has also been made with the adoption of the new legislation on food safety and GMOs. The level of enforcement for the official control of food hygiene is satisfactory, even though the implementation of HACCP is only progressing on a voluntary basis. Slovenia needs to sustain its efforts regarding the preparations for the official control of genetically modified food. Slovenia still needs to designate the contact point for the EC Rapid Alert System for Food and Feed (RASFF).

Conclusion

In its 1997 Opinion, the Commission concluded that further alignment to the *acquis* was still necessary, although significant progress had been made in adopting the measures mentioned in the Commission's White Paper of 1995 on the Internal Market. The Commission added that particular efforts were needed on: the strengthening of structural and rural development policy; the implementation and enforcement of veterinary and plant health requirements and upgrading of establishments to meet EC standards (an aspect of particular importance with regard to the inspection and control arrangements that protect the EU's external borders); the strengthening of the administrative structures to ensure the necessary capacity to implement and enforce the policy instruments of the CAP; and further restructuring of the agri-food sector to improve its competitive capacity. The Commission further pointed out that if such progress were accomplished, accession in the medium term should not be accompanied by significant problems in applying the Common Agricultural Policy in an appropriate manner.

Since the Opinion, Slovenia has made considerable progress towards alignment with the EC agricultural *acquis*. Slovenia is well advanced in terms of preparations to apply the Common Agricultural Policy. It has transposed most of the *acquis* in this area and established the necessary institutions for its implementation.

Negotiations on this chapter continue, although all negotiation issues in the veterinary and phytosanitary fields have been clarified. Slovenia has been granted transitional arrangements for construction elements for laying hens in battery cages (until 31 December 2009) as well as for the minimum floor area for laying hens already in production before the date of accession (until 1 December 2004 at the latest). Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on finalising alignment, and further reinforcing the administrative capacity to implement and enforce the *acquis*. Especially the staff of the Ministry of Agriculture, Forestry and Food and the Agency for Agricultural Markets and Rural Development needs to be reinforced, in particular in order to apply the Common Market Organisations in the agricultural sector effectively and smoothly. Further efforts are to be made as regards the coherent systematisation of procedures and drafting of manuals. Furthermore, timely establishment of the veterinary and phytosanitary controls at the future external borders should be ensured.

Chapter 8: Fisheries

Progress since the last Regular Report

Since the last Regular Report, significant progress can be noted with legislation and in administrative terms.

The adoption of the Marine Fisheries Act in June 2002 lays down the provisions on access to and management of fishery resources, market policy and structural policy. In March 2002, the Decree on the implementation of financial intervention for the preservation and development of marine and freshwater fisheries for 2002 was adopted, laying down measures and procedures for implementation of the Development Programme for Agriculture, Food and Fisheries in the area of preservation and development of marine and freshwater fisheries for the period 2000-2002.

The Ministry of Agriculture, Forestry and Food (MAFF) is responsible for fisheries policy preparation and implementation. The Freshwater and Marine Fisheries and Fish Farming Department within the MAFF employs 3 civil servants. It has been decided to recruit two additional persons by the end of 2002. Fisheries policy measures are implemented by the MAFF, with the exception of market policy and structural issues, which are being dealt with by the Agency for Agricultural Markets and Rural Development (AAMRD). The AAMRD was granted accreditation for management of the SAPARD funds in November 2001 and will appoint two staff by the end of 2002 to be in charge of fisheries and fish products for implementation tasks, one for structural measures and one for market regulation.

As regards **resource management, inspection and control**, implementation of the regulations is under the supervision of the Inspectorate for Agriculture, Forestry, Hunting and Fisheries, the Maritime Transport Inspectorate, the Inspectorate for Quality Control

of Agricultural Products and Foodstuffs (which started to operate in December 2001) and the Maritime Police. In the Inspectorate for Agriculture, Forestry, Hunting and Fisheries, one inspector is dedicated to marine fisheries and it has been decided to recruit another inspector in 2002. In accordance with the amendments to the Marine Fisheries Act and the Maritime Code, the inter-ministerial CROSS Centre for rescue and surveillance at sea was established within the Maritime Transport Administration, a body within the Ministry of Transport. The Centre is responsible for the monitoring of fishing vessel movements.

In the field of **structural actions**, the legal base for the Fishing Vessels Register is provided for in the new Marine Fisheries Act and its administration is within the competence of the MAFF. A provisional Fishing Vessel Register has been established at the Maritime Transport Administration.

As regards **market policy**, rules on the quality of fish, crustaceans, cephalopods, shellfish and their products were adopted in January 2002, bringing partial harmonisation with EC marketing standards.

No particular developments are to be reported in the areas of **state aid to the fisheries sector** and **international fisheries agreements**.

Overall assessment

Slovenia has completed the restructuring of the Fisheries Department in the Ministry of Agriculture, which is responsible for policy formulation, and the authorities in charge of resource management, inspection and control functions are in place. However, further efforts are still needed as regards administrative capacity, in particular the restructuring of the administration must be accompanied by training and recruitment of qualified staff.

In general, the process of adopting legislation is satisfactory. Slovenia aims to complete legislative alignment by end 2002. The law covering the establishment of producer organisations is still under preparation and is due by the end of 2002.

Technical facilities for inspection and control also need to be improved. The CROSS Centre for rescue and surveillance at sea is due to be reinforced with five new employees and to be fully operational in 2004.

Regarding the administrative capacity for handling the Structural Funds, the Agency for Agricultural Markets and Rural Development (AAMRD) has been designated as the platform for financial management of the Financial Instrument for Fisheries Guidance (FIFG). The establishment of the institutional arrangements required for programming, implementation, financial control, monitoring and evaluation of Structural Fund measures need to be accelerated.

On vessel registration, the Fishing Vessel Register should now be made fully operational and administered by the MAFF.

As regards market policy, no market intervention mechanism for fishery products has been established. More work is needed to ensure effective control of the common marketing standards in ports and on wholesale markets, and effective collection and transmission of data concerning the price reference regime, and on markets.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovenia would not encounter any major difficulties in integrating its fisheries sector into the Common Fisheries Policy.

Since the opinion, Slovenia has progressed both in terms of legislative alignment and in ensuring adequate administrative capacity, although progress has been slow in establishing the Fishing Vessel Register. The situation in this area is now in general satisfactory.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is meeting the majority of the commitments it has made in the accession negotiations in this field. However, a delay has occurred in the establishment of the Fishing Vessel Register.

In order to complete preparations for membership, Slovenia's efforts now need to focus on adopting the outstanding legislation, as well as on further reinforcing its capacity for implementation and enforcement.

Chapter 9: Transport policy

Progress since the last Regular Report

During the past year, Slovenia has continued to align its legislation with the *acquis* and made further progress, particularly through the adoption of implementing legislation to complement a number of framework laws adopted last year.

As regards **Trans-European Transport Networks**, Slovenia continued the construction of its motorway network in Trans-European Corridors V and X in accordance with the country's National Motorway Construction Programme. So far, approximately 50% of the operations in the National Motorway Construction Programme have been implemented. In 2001, 14 km of new motorways were put in operation while 100 km are currently under construction. A total of SIT 53 billion (€238 million) was allocated for motorway construction this year. As regards investments in rail transport infrastructure, existing lines, in particular sections of rail Corridors V and X, are being reconstructed in accordance with the National Programme of the Slovenian Railway Infrastructure Development.

In the **land transport** sector, Slovenia has already aligned its legislation with a substantial part of the road transport *acquis*. Legal alignment continued through the adoption of implementing legislation. Rules on Licences for the Provision of Road Transport Services have been issued, and an Act amending the Public Roads Act was adopted in February 2002 to regulate inspections at border crossing points in anticipation of the change of regime that will result from full membership. Rules on roadworthiness tests for motor vehicles and trailers were adopted in November 2001. In April 2002, Slovenia adopted rules on the transport of dangerous substances on the basis of the Transport of Dangerous Goods Act, which completed alignment of Slovenia's legislation with the *acquis* on the transport of dangerous goods by road. In May 2002, Slovenia also ratified the European Agreement on International Occasional Carriage of Passengers by Bus (INTERBUS) signed last year. As regards social legislation, the Act Amending the Road Transport Safety Act, related to the *acquis* concerning driving hours, rest periods

and standard checking procedures, was adopted in July 2002. It aims to improve road transport safety and to align Slovenia's policy with that of the EU.

As for administrative capacity, no significant developments can be reported.

On *railways*, further implementing legislation was adopted based on the Railways Act implementing some of the technical railway safety *acquis*, such as the rules on internal arrangements in railway undertakings (December 2001) and the rules on signalling-safety devices (April 2002). The Directorate for Rail Transport, which has overall responsibility for railway matters recruited two new staff, bringing the total number of staff to 21.

In March 2002 Slovenia adopted the Inland Waterways Navigation Act, which is the framework regulation in the *inland waterways* sector.

As regards **air transport**, no further progress can be reported concerning legislative alignment.

As provided for under the Aviation Act, an independent Office for the Investigation of Civil Aviation Accidents and Incidents was established. It has a permanent Chairman and the appropriate powers and resources, and is responsible for tasks related to the investigation and prevention of civil aviation aircraft accidents and incidents. A new centre for navigational safety control and co-ordination of search and rescue at sea has also been set up, although it currently has only one employee.

As regards **maritime transport**, implementing regulations were adopted implementing the Maritime Code of last year. These cover such matters as, *inter alia*, the rules on flying the Slovenian flag, the rules on conditions for safe port traffic and maintenance of order in Slovene ports and territorial waters, and the order on the payment of fees for carrying out Port State Control.

An additional employee has been hired at the Maritime Transport Administration. Slovenia's Port State control inspectors continue to be trained on courses organised by the Paris Memorandum of Understanding Secretariat.

Overall assessment

Despite continued and constructive participation in activities relating to the development of Trans-European Networks, there are delays regarding the timetable for motorway construction. Contributions to the highway construction and maintenance programme from petrol tax, motorway tolls and loans have so far been smaller than expected.

Slovenia's legislation on accounting systems for monitoring transport infrastructure costs needs to be completed as regards road infrastructure. Special emphasis should be given to ensuring the necessary administrative capacity (both in qualitative and quantitative terms) to prepare for the significant investments that will be needed in road and rail infrastructure.

As regards road transport, implementing legislation continues to be adopted at a steady rate, reducing the remaining *acquis* to be transposed. Slovenian technology, safety and environmental legislation are close to alignment. However, some technical *acquis* still needs to be transposed such as on safety belts, driving licences and the installation of speed limitation devices. Also, the EC rules on the roadside inspection of the

roadworthiness of commercial vehicles remain to be transposed. In addition, further efforts are still to be made in the implementation of social rules (admission to the occupation and checks on driving times and rest periods), in particular for domestic road transport operations. Administrative capacity should be strengthened, in particular through training specialised staff in key supervisory and control functions relating to social rules, vehicle taxation and road user charges, as well as technical and safety standards.

In the railways sector, legislative alignment needs to be completed, and special attention should be given to how the essential functions of infrastructure management are organised and carried out. The restructuring and modernisation of the sector should continue. There has been a delay in the adoption of the Act Governing the Restructuring and Privatisation of the Slovenian Railways. Most of the institutions needed to implement the relevant *acquis* are in place, however, the Rail Agency still remains to be established. The capacity of the State Railway Inspectorate should be further strengthened by increasing staff numbers so as to be able to make progress with harmonising legislation and to handle upcoming regulatory tasks, such as supervising the management of railway infrastructure and traffic safety, following full restructuring of the railways. Regulatory mechanisms for infrastructure charging and financing, cross-subsidies, the maintenance system, the drafting of a network statement, market monitoring and infrastructure capacity allocation need to be put in place.

As regards the inland waterways sector, the administrative capacity seems to be sufficient. It is necessary to complete legislative alignment through the adoption of implementing regulations.

As regards air transport, administrative capacity is satisfactory, thanks to the effective functioning of the Civil Aviation Authority. Slovenia continues to progress steadily in terms of alignment with the air transportation *acquis*.

In maritime transport, Slovenia's legislation is already to a great extent aligned with the *acquis*, through the adoption of the Maritime Code last year. Slovenia has already ratified 38 Conventions (including 24 in the framework of the International Maritime Organisation). Administrative capacity in this sector can be considered sufficient to implement the *acquis*.

Conclusions

In its 1997 Opinion, the Commission concluded that Slovenia was likely to be able to comply with most of the Community transport *acquis* (air, rail, road, maritime) in the medium term since it had already made notable and rapid progress in the adoption of the *acquis* in this sector. The Commission encouraged Slovenia to devote adequate attention in the pre-accession period to the *acquis* implementation for its road haulage market (in particular on market access and tax) and to clarify the financial procedures in the rail sector. The Commission added that it would also be necessary to make sure that the resources were available to lay the foundation for extension of the future Trans-European transport network to the acceding countries.

Since the Opinion, Slovenia has made steady progress in aligning legislation. Its legislation in the transport sector is now to a great extent in line with the EC *acquis*; the relevant framework laws are in place and only a limited amount of implementing

legislation remains to be implemented. Slovenia has also gradually reinforced its administrative capacity although the recruitment of additional staff, foreseen last year, has not been as rapid as planned.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is meeting the majority of the commitments it has made in the accession negotiations in this field. However, a delay has occurred in the adoption of legislation allowing for the restructuring and privatisation of Slovenian railways. This needs to be addressed.

In order to complete preparations for membership, Slovenia's efforts now need to focus on the implementation of the social and the technical *acquis* in the road sector and further legislative alignment and institutional development in the rail sector.

Chapter 10: Taxation

Progress since the last Regular Report

Slovenia has made further progress with aligning its tax legislation with the *acquis*. Since the last Regular Report, the reform of Slovenia's tax administration has also made progress.

In the area of **indirect taxation**, the VAT law was amended in July 2002. It specifies VAT exemptions for activities that are in the public interest, the taxation of second-hand goods, antiques and collector's items and travel agents. The law stipulates that the reduced VAT rate applied to wine and audio-visual material will be aligned with the *acquis* by accession. As regards excise, amendments to the law on excise duties were adopted in November 2001. These brought the excise duties rates on beer, fermented beverages and spirits to the EC minimum level. As regards cigarettes, the law provides for compliance with one of the EC requirements (57% overall minimum excise duty level) by January 2004.

Regarding **direct taxation**, amendments to the Economic Zones Act were adopted in November 2001. These changed the terms and the conditions for obtaining tax advantages for activities carried out in the economic zones.

In the field of **administrative co-operation and mutual assistance**, a VAT Information Exchange System (VIES) project was established in January 2002.

Slovenia has continued the reform and modernisation of its tax administration. In particular, activities were carried out in the areas of training, tax accountancy, the register of taxable persons, internet-based services for taxpayers, document management, collection and procedures. In September 2001 a Strategic Plan for the Tax Administration for the period 2001-2004 with a special emphasis on Information Technology (IT) strategy was adopted. It also covers the area of exchange of information with foreign tax administrations.

Overall assessment

Slovenia's legislation is almost fully aligned with the EU *acquis*. On VAT, the only transpositions still required concern intra-community trade provisions and some other

minor discrepancies. Concerning excise duties, the first amendment to the Excise Duties Act is scheduled to be adopted by the end of 2002 and is intended to eliminate the last discrepancies on the level of excise duties. Slovenia is already in compliance with the EU minimum duty rates for almost all harmonised product categories. The intra-Community provisions still need to be transposed.

Concerning direct taxation, amendments to the Income Tax Act and to the Corporation Tax Act are presently being drafted. Legislation will have to be reviewed in order to eliminate potentially harmful tax measures, so as to comply with the Code of Conduct for Business Taxation to the same extent as current Member States upon accession. The Commission's initial technical assessment of potentially harmful measures applied in Slovenia is ongoing.

Good progress has been achieved regarding administrative capacity. Both the Tax Administration and the Customs Administration, which is responsible for excise duties, appear to be modern and well functioning, with well-trained staff and adequate administrative structures. Both seem to be capable of ensuring effective revenue collection, enforcement and control of taxes. Both administrations have continued to prepare to address the problems they may face once part of the Internal Market. The main problem the Tax Administration is now facing is the ban on recruitment of new staff – mainly needed in the information technology area – due to budgetary reasons. Establishment of the Excise Liaison Office in the General Customs Directorate is currently being considered. The Central Liaison Office, responsible for exchange of VAT and direct taxation, was established in 1999.

Regarding the development of the IT system, specifications are being prepared. If the work proceeds as planned, Slovenia is expected to be in a position to meet its obligations in this respect by accession.

Conclusion

In its 1997 Opinion, the Commission concluded that the *acquis* in respect of direct taxation should present no significant difficulties. Although legislation was in preparation, in the absence at that time of a VAT or excise system, it had to remain open to doubt whether Slovenia could comply with the *acquis* in the medium term. The Commission added that it should be possible to start participating in mutual assistance as the tax administration developed its experience in this respect.

Since the Opinion, Slovenia has made considerable progress regarding alignment with the *acquis* and developing the necessary institutions. As a result Slovenia's alignment process is well advanced and implementation capacity has reached a high level.

Negotiations on this chapter have been provisionally closed. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field. Slovenia has been granted transitional periods until 31 December 2007 as regards the continued application of the reduced VAT rate on the supply of construction work for residential housing and on the supply of restaurant services. Slovenia was also permitted to apply a VAT exemption and registration threshold of €25 000 for small and medium-sized enterprises. In the field of excise duties, Slovenia was granted a transitional period regarding delayed implementation of the overall minimum excise duty of € 64 on

cigarettes (31 December 2007). Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on developing the infrastructure, training and staffing in the information technology context, as well as on completing alignment – except where transitional arrangements have been agreed - by eliminating the last discrepancies, with the EC taxation *acquis*, including those relating to intra-community transactions.

Chapter 11: Economic and Monetary Union

Progress since the last Regular Report

A detailed assessment of the various aspects of Slovenia's economic policy has been given above, in the Chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *Acquis* — as defined by Title VII of the EC Treaty and the other relevant texts – which candidate countries should implement before accession, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and the independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

Since last year's Regular Report significant progress has been made in the adoption of the EMU-related *acquis* through the Act on the Bank of Slovenia adopted in June 2002. The new Act ensures compliance with the *acquis* in the areas of **central bank independence** and prohibition of **direct public sector financing by the Central Bank**. As regards **privileged access of the public sector to financial institutions**, the Slovene authorities have also indicated that they have amended the provisions relating to banking deposit guarantee funds that were deemed to be incompatible with the *acquis* in this area.

Overall assessment

Slovenia will participate in EMU upon accession with the status of a country with a derogation under Article 122 of the EC Treaty, and it will need to implement the necessary changes to its institutional and legal framework by the date of accession.

The new Act on the Bank of Slovenia aligns Slovenian legislation with the *acquis* in this area.

Conclusion

In its 1997 Opinion, the Commission concluded that the Slovenian Central Bank enjoyed a relatively high degree of independence from the Government, but the Law on the Central Bank was not fully compatible with the Treaty prohibition of budget deficit financing.

Since the Opinion Slovenia has made significant progress towards alignment with the *acquis* especially by adoption of the new Act on the Bank of Slovenia in June 2002. .

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on effective implementation of the *acquis* in this area.

Chapter 12: Statistics

Progress since the last Regular Report

Slovenia has continued to make good progress over the past year.

As regards **statistical infrastructure**, an amendment to the statistical law was adopted in autumn 2001, defining the role of other producers of official statistics than the Statistical Office. It provides for close co-operation with the Statistical Office in the harmonisation of data security systems. During the reporting period, methodological, technical and educational capabilities were developed further. Statistical processes have been made more uniform and control over production of statistical data was introduced.

Concerning **classifications**, national classifications and nomenclatures of economic activities and products by activity were brought into line with European requirements in January 2002.

Concerning **demographic and social statistics**, progress continued to be made in migration statistics, employment and unemployment statistics, earnings and labour cost statistics, income poverty and social statistics as well as social protection statistics. The Census of Population and Housing took place in April 2002.

As regards availability of statistics at **regional** level, the publication "Catalogue of Regional Breakdown of Slovenia" published in autumn 2001 provides data.

In the field of **macro-economic statistics**, Slovenia started publishing the harmonised index of consumer prices (HICP). A revision of the producer price index was carried out. When evaluating national accounts in general, and government deficit and debt statistics in particular, a large improvement of the quality of collected data was achieved.

Business statistics are compiled from various statistical and administrative sources. Electronic reporting of data is being introduced by preparing a questionnaire for the collection of missing data for the implementation of the Structural Business Statistics (SBS) regulation. The majority of Short-term Statistics (STS) indicators are available on a monthly basis. There has been progress with improving the quality of data on construction and industry.

As regards **transport statistics**, no new developments can be reported. A good level of compliance is already achieved.

On **external trade**, preparations for INTRASTAT measuring trade of all commodities between the Member States, is ongoing. The quality of statistics is already quite good.

On **agriculture, forestry and fisheries statistics**, Slovenia continued to work on the revision of the Input and Output Price Statistics Survey over the reporting period. The revision covered the selection of new reporting units, use of existing and planned administrative data, selection of representative products/services and a new weighting scheme. The data of the Agriculture Census and the Vineyard Census carried out in June 2000 was analysed and the typology introduced.

Overall assessment

Slovenia is well advanced with regard to making data collection more efficient, by introducing modernised and user-friendly procedures and appropriate software for obtaining primary data. Although innovative methods for widening the general knowledge base have been introduced, attention should be given to ensuring that the Statistical Office of the Republic of Slovenia (SORS) has a sufficient knowledge base in specialised areas. The staffing of the SORS needs to be strengthened.

Slovenia's preparations for INTRASTAT are already quite advanced. Efforts are still required for obtaining individual data from tax authorities with identification codes.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovenia would be able to comply with the EU requirements within the next few years provided that continued progress was made.

Since the Opinion, Slovenia has made very good progress in complying with the *acquis* and in the production of statistics. Slovenia is now well advanced in both areas.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on strengthening the SORS, methodological and material alignment in particular in the areas of structural business statistics, timeliness and quality of short-term statistics and structure of earnings.

Chapter 13: Social policy and employment

Progress since the last Regular Report

Very good progress has been made in this area since the last Regular Report.

In the field of **labour law**, the Employment Relations Act was adopted in April 2002. This act represents a new framework for the settlement of all aspects of individual labour relations. It is expected to enter into force in January 2003. Furthermore, the European Works Councils Act, which aims to transpose the European Works Councils Directive and to provide the legal basis for the establishment of such councils in Slovenia, was adopted in June 2002.

As regards **equal treatment** for women and men, the Parental Protection and Family Benefits Act, which entered into force in December 2001, and the new Employment Relations Act aim to further align Slovenia's legislation with the *acquis* on a range of issues, including equal pay for men and women, equal treatment in access to employment, vocational training, promotion and working conditions as well as parental leave. Moreover, the Equal Opportunities Act, an umbrella law providing a common basis for creating equal opportunities for women and men in public life, was adopted in June 2002. This act envisages the adoption of a special national programme on equal opportunities and will also allow the Government Office for Equal Opportunities to appoint an ombudsman who will handle cases of unequal treatment.

In the area of **health and safety at work**, legislation was adopted in the period December 2001 until February 2002 concerning the transposition of the *acquis* as regards the protection of workers against the risk of exposure to chemical substances and biological agents and as regards occupational safety and health at temporary and movable construction sites. Furthermore, during the last year, labour inspectors have participated in various forms of training in this field.

The **social dialogue** continues to contribute to the legislative process and collective bargaining. Following the successful conclusion of consultations between Government, employers' and employees' representatives, the Law on the Implementation of Wage Policy for the Period 2002-2004 was adopted in June 2002.

As regards **public health**, implementing legislation in the field of chemicals, medicines and foodstuffs was adopted in May and July 2002. The staff of the Institute of Public Health continues to receive training to carry out measurements of harmful substances in tobacco.

In terms of **Employment Policy**, the Joint Assessment of Employment Policy Priorities (JAP) was signed in July 2000. As part of the monitoring process of the Employment Policy Review, a progress report on the implementation of the priorities identified in the JAP was submitted by the Ministry of Labour, Family and Social Affairs in July 2002. This report presents an important step in assessing the extent to which Slovenia is progressing towards its objectives of labour market reform and adaptation of its employment system in order to prepare for future participation in the European Employment Strategy after accession. The situation in the labour market improved further in the reference period. The unemployment rate continued to decrease in 2001, to 5.7%. The high and increasing share of long-term unemployment at 63% is a source of concern. In October 2001, Slovenia adopted the National Programme for the Labour Market and Employment up to 2006 and, in February 2002, the Guidelines for an Active Employment Policy in Slovenia for 2002 and 2003.

As regards preparations for implementation of the European Social Fund (ESF), the Ministry of Labour, Family and Social Affairs was appointed to be in charge of the implementation of ESF-related measures under the Structural Funds, including the EQUAL Community initiative. Preparation and training activities in this area have continued during the last year, including training of staff of the Slovenian Employment Institute and the Vocational Training Centre.

As a follow-up to the Gothenburg European Council, where the EU invited the candidate countries to translate the EU objectives into their national policies, the Commission and

Slovenia have initiated a joint co-operation exercise to prepare for future participation in the EU **social inclusion** process after accession. This exercise consists of joint identification of the social exclusion challenges and relevant policy responses. Slovenia has already been co-operating with Eurostat to adapt its statistical system in line with the EU common indicators on social inclusion. Preliminary figures suggest that overall income disparities seem to be relatively low, but the poverty rate after social transfers is a cause for concern (13.7%). The Government adopted a Programme on the Fight Against Poverty and Social Exclusion in 2000 and issued a first implementation report in April 2002.

As regards other areas of **social protection**, the new Parental Protection and Family Benefits Act ensures a higher level of protection of poor families and families with many children.

As regards **anti-discrimination**, the new Employment Relations Act includes provisions on the prohibition of indirect and direct discrimination in the field of employment on the grounds of gender, race, age, state of health or disability, religious, political or other conviction, sexual orientation and national origin. In case of a dispute, the burden of proof lies with the employer. (*See also Section B.1.2. – Human rights and the protection of minorities.*)

Overall assessment

The adoption of the new legislation in the field of labour law and equal treatment for women and men represents an important step in alignment with the social policy *acquis*. Slovenia will now have to concentrate notably on the effective implementation of the recently adopted legislation and on making sure that the relevant institutions have the adequate administrative capacity in place and are able to fulfil their new responsibilities emerging from the new legislation.

Regarding health and safety at work, transposition of the *acquis* advanced well in 2001 and 2002. However, considerable work remains to be done with respect to the effective implementation of the *acquis* in this area. In this respect, particular attention should be paid to small and medium-sized enterprises. Targeted training of the labour inspectors, including as regards databases in the health sector, needs to be continued.

In the field of public health, the training of staff to perform measurements of harmful substances in tobacco in line with the ISO standards is underway. Measurements of the tar, nicotine and carbon monoxide yields will be carried out by the Institute of Public Health and are envisaged to start at the beginning of 2003. The amendments to the Tobacco Products Act, which aim to transpose the current tobacco *acquis*, remain to be adopted. Slovenia has made good progress overall in improving the health status of the population and on health expenditure.

In order to fulfil and implement EU requirements in the field of communicable diseases surveillance and control, some improvements are needed with regard to epidemiology laboratory facilities, quality control system for microbiological testing, resources and surveillance and control systems. There has been good progress in improving the health status of the population and on health expenditure.

The social dialogue is well advanced in Slovenia, especially at tripartite level. Autonomous bipartite social dialogue and free collective bargaining at both sectoral and enterprise level, however, should be promoted (with free and independent social partners emerging in this process). The Government regularly involves all social partners in discussions on the drafting of national programmes and legislation. Although progress has been made, in particular with the adoption of the Employment Relations Act, the role of the social partners in the legislative process needs to be clarified, so that the process remains effective and timely.

Regarding employment, the Joint Assessment of the Employment Policy Priorities for Slovenia (JAP) represented an important step in the preparations for accession. Progress in the implementation of these policies is assessed regularly and it will be important to ensure effective monitoring of the phasing-in of the priorities and commitments contained in the JAP. Slovenia has advanced as regards policy development capacities and has strengthened its active labour market policy. The need to reorient activities towards a pro-active approach has been recognised, but needs to be further implemented. Efforts have also been made to modernise the Public Employment Service, and they need to be continued.

Concerning the preparation for the work of the European Social Fund, Slovenia has taken some key decisions in terms of defining the future responsibilities of the various ministries in the implementation of Structural Funds. However, the strengthening of the administrative capacity of the Ministry of Labour, Family and Social Affairs, in particular of the ESF Department, as well as of future final beneficiaries (e.g. Ministry of Education) needs to be addressed as a matter of priority, notably in the areas of monitoring, audit and financial control, and the timely functioning of an effective IT system for financial and physical monitoring of ESF interventions needs to be ensured. The Ministry of Labour, Family and Social Affairs should ensure that human resources development is an integrated component of the overall National Development Strategy.

The existing national strategy on social inclusion needs to be developed by promoting a preventive and remedial approach and taking into account the EU objectives. As poverty and social exclusion are multidimensional by nature, it is important to support an integrated approach mobilising various governmental bodies and all relevant stakeholders in the process. It is also crucial to improve and develop social statistics systems on poverty and social exclusion in line with the EU commonly agreed indicators on social inclusion.

Finally, in the field of anti-discrimination, further progress is needed to ensure the full transposition and implementation of the EC anti-discrimination legislation. The Equality Body foreseen by the *acquis* has to be established. Slovenia is implementing several programmes for the Roma community aiming at a higher level of education and vocational skills.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovenia had already taken a number of significant steps in preparation for its future EU membership in the social policy field and was likely to be able to take on the obligations of EU membership in the medium term. Social reforms should be continued and the social dialogue should be developed.

Since the Opinion, Slovenia has made good overall progress in aligning its legislation with the *acquis* in all areas. In particular, good progress has been made in the spheres of labour law, equality of women and men, and anti-discrimination. Slovenia has reached a good level of transposition of the *acquis* in these areas.

Negotiations on this chapter have been provisionally closed. Slovenia has been granted a transitional arrangement (until 31 December 2005) for the implementation of certain health and safety at work Directives. Slovenia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on completing the remaining transposition in the areas of health and safety at work and tobacco and on ensuring effective implementation of the *acquis*. Slovenia needs to further strengthen its administrative capacity in this respect, in particular for the future implementation of the European Social Fund.

Chapter 14: Energy

Progress since the last Regular Report

Since last year's Regular Report, which concluded that alignment with the *acquis* in the energy sector was well advanced, Slovenia has made further progress.

With regard to **security of supply**, the constitution of 90 days' oil stocks has continued in accordance with the government plans.

As regards the issues of **competitiveness and the internal energy market**, regulations laying down the rules for opening up the electricity and gas markets were amended. Since January 2002, the market for electricity produced outside Slovenia has been partially opened and in March a Decree on the rules for setting producer prices and for the purchase of electricity from power producers was issued. The decree, based on the Energy Act, sets out rules and elements for contractual relations between generators and network operators. It also lays down the rules for setting prices and premiums for the purchase of electricity from qualified producers. In conformity with the Energy Act Slovenia continues to prepare for the internal energy market and preparations are ongoing for the further opening of the electricity market in January 2003. As to the natural gas market, it is foreseen to be opened to a degree of 50% in January 2003.

Several undertakings in the oil and gas industries have been privatised. The Slovenian State holds a 25% stake in Geoplin, the country's natural gas supplier and transmission utility.

Slovenia continues to give importance to improving the country's **energy efficiency**. A number of executive acts, pursuant to the Energy Act, were adopted at the end of 2001 on energy efficiency labelling and standards. As a result, Slovenian legislation is largely aligned with the energy efficiency *acquis*. A strategy to improve Slovenia's energy efficiency is being implemented, including information and educational activities and financial support. This strategy also includes the promotion of the use of **renewable energies**.

As regards administrative capacity, the Energy Agency of the Republic of Slovenia became operational in January 2002, empowered with responsibility for securing transparent and non-discriminatory operation of the electricity and gas markets.

In the field of **nuclear energy**, Slovenia operates a nuclear power plant located at Krško. One unit of Westinghouse-PWR-664-W design type is in operation.

As regards nuclear safety, Slovenia has continued to make progress on improving the legislative and regulatory framework, safety improvement programmes at the Krško nuclear power plant, as well as investigating solutions for long-term management of spent fuel and nuclear waste. In July 2002, the Slovene Parliament adopted the Act on protection from ionised radiation and nuclear safety. The Act regulates the field of nuclear and radiation safety and defines security procedures for the workers and individuals exposed to ionised radiation due to the use of radiation sources and carrying out of radiological procedures. The Act aims at bringing Slovenia in line with EC regulations and international agreements on nuclear safety.

In July 2002, the Government replaced the chairman of the Slovenian Nuclear Safety Administration (SNSA).

A bilateral agreement with Croatia on the joint management of the nuclear power plant was signed in December 2001 and submitted to both countries' Parliaments for ratification. The Agreement aims at settling the issues relating to the ownership of the Krško nuclear power plant (NPP) and long-term disposal of nuclear waste, and at regulating the status and other legal relations concerning investments in the power plant, its usage and decommissioning. In particular, the agreement anticipates the supply of half of the Krško-generated electricity to Croatia as of July 2002. The agreement was ratified by the Croatian Parliament in July 2002 and now remains to be ratified by the Slovenian Parliament (*see Chapter 27 - Common foreign and security policy*).

Overall assessment

With regard to security of supply and constitution of compulsory oil stocks, Slovenia is satisfactorily advanced for meeting its timetable for constituting these stocks. Due to a shortage of storage facilities, some of these stocks will be stored outside Slovenia. An Agreement with Germany has been signed to this effect, and further possibilities with Italy and Hungary are being explored.

Slovenia continues to open further its energy markets and all the institutions required for the operation of the market are fully operational. Power and coal utilities still have to be privatised.

Slovenia's energy efficiency strategy is estimated to have contributed to an almost 30% decrease in the country's energy consumption over the past 5 years. This shows the role that this policy can play in improving the country's competitiveness. Slovenia should therefore continue its efforts to improve energy efficiency and the use of renewable energy.

The institutions for implementing the *acquis* are in place and functioning. These bodies need to be further reinforced, notably in terms of training and recruitment of additional staff.

The Energy Agency of the Republic of Slovenia, which is an independent regulatory authority carrying out specific tasks under the Energy Act, has the responsibility for securing transparent and non-discriminatory operation of the power and gas markets. It currently employs 18 employees and plans to recruit two more persons. It oversees both the electricity and gas markets and its competencies include pricing, dispute settlement and licensing. The Agency for Efficient Use of Energy is in charge of the efficiency policy and staffed with 6 employees. The Agency for Oil Stocks is staffed with 9 employees. The Slovene Nuclear Safety Administration (SNSA) is responsible for licensing tasks relating to nuclear safety in Slovenia. The SNSA is currently staffed with 44 persons. Of these, 8 inspectors conduct about 100 inspections per year at the Krško power plant, and about 15 inspections in other facilities (research reactor, uranium mine in decommissioning, transport of radioactive and nuclear materials, waste storage).

The European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries. In June 2001 the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. This Report contains recommendations to all candidate countries to continue their national safety improvement programmes, including the safe management of spent fuel and radioactive waste and the safety of their research reactors.

During the first half of 2002, a special Peer Review on nuclear safety assessed the progress made by candidate countries in implementing the recommendations. This exercise, conducted under the auspices of the Council, resulted in a Status Report published in June 2002, which concludes that Slovenia has accepted and addressed all the recommendations contained in the June 2001 Report on Nuclear Safety in the Context of Enlargement. Most recommendations have been adequately addressed. With regard to one specific recommendation concerning the completion of the seismic qualification of the Krško NPP, Slovenia has indicated adequate measures, but the Report emphasises that Slovenia is expected to ensure that they are implemented. Slovenia should devote further attention to one specific recommendation regarding legislation, namely to ensure the *de iure* independence of the nuclear safety regulatory authority (SNSA) from the promotion of nuclear energy.

Low and intermediate-level nuclear waste is stored on-site at Krško. However, the plant will run out of storage capacity after the 2003 refuelling outage. Planning to increase the capacity of the existing spent fuel has therefore begun, and should be completed by April 2003. Longer-term solutions for spent fuel and nuclear waste therefore will need continued attention.

Slovenia will need to ensure compliance with Euratom requirements and procedures. In this respect, due attention must be given to preparing for the implementation of Euratom Safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or undertakings operating nuclear installations or storing nuclear material. In this sense good progress has been made with the adoption of the Act on protection from ionised radiation and nuclear safety. It should be noted that Slovenia has concluded a Full-Scope Safeguards Agreement with the IAEA.

Conclusion

In its 1997 Opinion, the Commission concluded that, provided efforts were maintained, Slovenia should be in a position to comply with most of the then existing EC energy

legislation in the coming years, adding that aspects such as the adjustment of monopolies, access to networks, energy pricing, emergency preparedness (including the building-up of mandatory oil stocks), state interventions in the solid fuel and uranium sectors, and the development of energy efficiency needed to be closely monitored. The Commission further pointed out that no major difficulties were foreseen regarding compliance with Euratom provisions, but that Slovenia should adhere to, or implement fully, certain international nuclear agreements. Nuclear safety standards should be handled appropriately and longer-term solutions for nuclear waste needed to be found.

Since the Opinion, good progress has been made, notably with regard to oil stocks, the internal energy market, particularly the electricity and gas sectors, the improvement of energy efficiency and the promotion of renewable energy, nuclear issues, and the gradual development of administrative capacity. Overall, Slovenia has achieved a good level of alignment with EC requirements in this area, both as regards legal transposition and administrative capacities.

Negotiations on this chapter have been provisionally closed. Slovenia has been granted a transitional period on the building-up of oil stocks (until 31 December 2005). Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on ensuring full and timely implementation of legislation in this area, further strengthening the administrative capacity of the established bodies, in particular the energy regulator and the nuclear safety authority, and taking the necessary measures to ensure the *de iure* independence of the Slovenian Nuclear Safety Administration (SNSA) from the promotion of nuclear energy. Slovenia needs to continue to take measures for the progressive building up of oil stocks.

Chapter 15: Industrial policy¹⁶

Progress since the last Regular Report

Progress has been made in this area since the last Regular Report.

In the field of **industrial strategy**, Slovenia has continued to implement the "Strategy for Increasing Competitiveness of Slovenian Industry". As part of this strategy, the implementation of the Development Programme for Encouraging the Development of Enterprise Sector and its Competitiveness for 2001–2002 has continued. It encompasses four sub-programmes: promotion of the competitive capability at company level, promotion of technological modernisation and innovations, promotion of entrepreneurship, and development of tourism. The implementation of the scheme for attracting Foreign Direct Investment (FDI) in the period 2001–2004, has continued. The scheme mainly focuses on simplifying administrative procedures and facilitating access to industrial land.

¹⁶ Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (see Chapter 16 - *Small and medium-sized enterprises*).

In 2001 the level of FDI was much higher than in the previous two years, increasing from around 1% to over 2% of GDP, especially because of the privatisation in the telecom and banking sectors. Internationalisation of Slovene enterprises was enhanced in this period.

Regarding **restructuring**, the implementation of the programmes for restructuring the textile and footwear industries and for restructuring the steel industry continued. The steel restructuring plan is considered to be in line with Protocol 2 to the Europe Agreement.

In the area of **privatisation**, in February 2002 the Government adopted a decision to liquidate the Slovenian Development Corporation (SDC), a body that owns state companies, by the end of 2002.

Regarding administrative structure, the restructuring of the Ministry of Economy, which resulted from the merger of three ministries, was completed by the end of 2001.

Overall assessment

Slovenia's figures for industrial production have been very positive. Slovenia has introduced innovative methods, in particular in the benchmarking of various industrial sectors. The process of shifting direct intervention in companies to horizontal measures for the promotion of competitiveness has been clearly defined and should be continued with determination. Support for the creation and development of industrial clusters in Slovenia started in 2001. Taking into account the positive results of the first experience started in 2001, new initiatives should be launched.

The process of termination of the SDC has been defined and needs to be speeded up and accomplished without delay. The process of restructuring/privatisation also has to be completed, after the termination of the SDC.

The consequences of the restructuring plans especially in the textile and leather/footwear sectors, but also in the construction industry need to be taken into account in the definition of the socio-economic development strategy in Slovenia. The necessary financial means should be ensured.

An important dimension of industrial policy is the control of state aid (*see also Chapter 6 – Competition Policy*).

The Ministry of Economy is the central body responsible for the formulation and co-ordination of industrial policy. Its co-ordination role has been strengthened through the merger. The Trade and Investment Promotion Office (TIPO) is responsible for promotion of investment in Slovenia. Administrative capacity and co-operation in this field appear to be satisfactory. Business associations continue to operate and engage in dialogue with the Government.

Conclusion

In its 1997 Opinion, the Commission concluded that the current level and perspective for competitiveness of most of the Slovene industry enabled a positive expectation on its capacity to cope with the competitive pressure and market forces within the Union in the medium term.

Since the Opinion, Slovenia has continued to make good progress in most areas, and Slovenia's policy towards industry generally complies with the principles of EC industrial policy, i.e. it is market-based, stable and predictable.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements in this field. Slovenia is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Slovenia should focus further efforts on enhancing competitiveness in the enterprise sector further so as to achieve full integration into the Single Market.

Chapter 16: Small and medium-sized enterprises¹⁷

Progress since the last Regular Report

Slovenia has made good progress in this area since the last Regular Report.

As regards **SME policy**, Slovenia adopted in March 2002 the Programme of measures to promote entrepreneurship and competitiveness for the period 2002-2006. This programme is intended to implement the Strategy for Development of the Small Business Sector and Entrepreneurship that was adopted in 2001. The main objectives of the Programme are oriented towards the elimination of barriers to the growth of enterprises and the creation of a supportive and business-friendly environment.

In April 2002, Slovenia endorsed the European Charter for Small Enterprises as the basis for its action to support and develop small enterprises. The European Charter, adopted by the European Council in June 2000, is the reference document in the field of enterprise policy within the socio-economic strategy set up at the Lisbon European Council. The reporting process on the implementation of the European Charter in Slovenia started in May 2002.

As to the improvement of the **business environment**, some progress was made in implementing the Action Plan for the programme for the elimination of administrative barriers. The most relevant results for SMEs were simplified procedures for start-ups, a shorter period for the registration of new companies (from three to one month), lower costs for the establishment of new companies, simplified rules on registration and craft licences, easier access to industrial land, and an improved information system. To improve access to finance, ten regional guarantee funds have been set up to provide additional financial support at regional level. Information networks for entrepreneurs have been set up in the 37 local and regional business centres. Thereby, the process of establishing one-stop-shops for enterprises has progressed.

No further progress can be reported as regards the **SME definition** applied by Slovenia.

¹⁷ Developments concerning SME policy should be seen in relation to overall enterprise policy, including industrial policy (see Chapter 15 - Industrial policy).

Overall assessment

Slovenia's Programme of measures to promote entrepreneurship and competitiveness is in line with the EU objectives on enterprise policy.

Access to finance remains an obstacle for SMEs and there is a need to further develop innovative financial schemes. The "business angel network" seems promising in this respect. Furthermore, business skills, access to research projects and technologies and the use of patents by SMEs should be promoted.

The first set of measures adopted under the programme for the elimination of administrative barriers goes in the right direction to create a more business-friendly environment. However, there is still room for improvement in this area. In particular, the planned establishment of "one-stop-shops", which should go beyond the simple provision of information by giving complete administrative support to enterprises, would be a vital step for further improving the business environment.

Administrative capacity in the field of SMEs seems to be satisfactory. Co-operation between the Ministry of Economy and other public bodies (Small Business Development Centre and Small Business Development Fund, and regional and local agencies) has improved and is efficient. The Entrepreneurship Forum, which puts together private and public institutions responsible for enterprise policy, meets regularly on specific subjects. The business community is represented by the Chamber of Commerce and by the relevant branch associations. Both are working well and efficiently. Co-operation is functioning well. However, there is still room for improvement in the government's relations with business representatives.

Efforts should be strengthened to prepare for full use of the structural funds in the area of enterprise development.

The **definition of SMEs** is not yet fully aligned with the recommendations of the European Commission.

Conclusion

In its 1997 Opinion, the Commission concluded that there were no specific problems foreseen regarding Slovenia's further participation in this sector.

Since the Opinion, Slovenia has made good progress in formulating an SME policy and in improving the business environment. Its policy towards SMEs is generally in line with the approach promoted at EU level.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on facilitating the access of SMEs to finance and innovation, on improving the business skills of existing and potential entrepreneurs, and on fully implementing the anti-bureaucratic programme.

Chapter 17: Science and research

Progress made since the last Regular Report

Further progress has been made in this area since the last Regular Report.

In March 2002, Slovenia adopted the Programme of Measures to promote entrepreneurship and competitiveness for the period 2002-2006. In the science and research area it defines the rules concerning requirements, methods of selection and funding of development projects proposed by inventors. Slovenia continued with the harmonisation of the support mechanisms for companies involved in R&D activities and development of new technologies.

Slovenia continued to be associated with the Fifth EC **Framework Programme** and with the Fifth Euratom Framework Programme. Slovenia has expressed an interest in being associated with the Sixth Framework Programme (2002-2006).

Overall assessment

The policy and legislation of Slovenia in this field are in line with EC guidelines. The framework of co-operation is well established via the National Contact Point (NCP) system and the inter-ministerial working group set up in January 2000. The success rate of Slovenia's tendering for projects in the Fifth Framework Programme is good and comparable to the success rate achieved by EU Member States.

The Act on Support of Companies Developing New Technologies and Setting up and Managing their Development Units in the Period 2000 – 2003, adopted in 1999, is important for stimulating business expenditure on research.

The present level of gross domestic expenditure on research and development approaches the EU average.

Conclusion

In its 1997 Opinion, the Commission concluded that no major problems were expected and that accession would be of mutual benefit.

Since the Opinion, Slovenia has been very successful in establishing a favourable environment in this area.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia should focus further efforts on encouraging research that supplies relevant technology to SMEs and on strengthening the link between the private sector and science and research, in particular through transfer of know-how. This would also contribute to further increasing its participation rate in the Framework Programmes. Co-operation at the European level in this field should be enhanced.

Chapter 18: Education and training

Progress since the last Regular Report

Slovenia has made further progress in this area since the last Regular Report.

During the reference period, Slovenia continued to participate in the second generation of the Leonardo da Vinci, Socrates and Youth **Community programmes** (*see section A.b – Relations between the European Union and Slovenia*).

As regards **reforming its education and training system**, the National Higher Education Programme was adopted in March 2002. It lays down the relevant targets of higher education in the next five-year period. In addition, Slovenia continued the gradual introduction of the nine-year elementary education, which should be finalised in the academic year 2003/2004.

Overall assessment

Participation in the relevant Community programmes is satisfactory and the number of applicants is constantly increasing. The existing national agencies are operational, although additional staff would be welcome to increase participation.

Slovenia is fully aligned with the **Directive concerning education of children of migrant workers**.

The Law on National Occupational Qualifications, which was adopted in 2000 and regulates the procedures, bodies and organisations for obtaining national vocational education, represented an important step for the development of the education and training system. In addition, Slovenia adopted in June 2001 a new Strategy of Economic Development in Slovenia, which has as one key element the designation of the right policies for the transition to a knowledge-based society.

Conclusion

In its 1997 Opinion, the Commission concluded that no major problems should be expected in these fields in the perspective of accession.

Since the Opinion, Slovenia has achieved significant progress in re-orienting the education and training system to make it suitable for a small open-market economy aiming at international competitiveness. Slovenia's legislation is in line with the *acquis* in this area and the necessary administrative capacity is in place.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on active implementation of the vocational education and training system within the policy of lifelong learning.

Chapter 19: Telecommunications and information technologies

Progress since the last Regular Report

Since last year's Regular Report, Slovenia has made some progress in the area of telecommunications and substantial progress in the postal sector.

Concerning **liberalisation of the telecommunications market**, three concessions have been awarded for the provision of DCS 1800 services. In November 2001 a single licence for UMTS was awarded. Steps have been taken towards tariff re-balancing and reducing the interconnection tariff. Penetration in mobile services has reached 69%. There are three GSM operators. Fixed network penetration reached 41%. Network modernisation has been completed and price rebalancing is well advanced.

As regards the **regulatory framework**, some progress took place during the reporting period. Implementing legislation intended to bring about further alignment with the *acquis* has been adopted.

In spring 2002 the Ministry of Information Society prepared the National Programme for the Republic of Slovenia in Information Society as a policy document for public administration, economy and civil society. It brings further alignment with the e-Europe+ Action Plan for candidate countries. It aims to prepare a legal and regulatory framework for e-business at the infrastructure and services level, to promote the usage of information technologies, and to promote the development of services in public administration, economy and civil society.

As regards **postal services**, Parliament adopted the new Postal Act in April 2002. The law intends to bring about alignment with the *acquis* through its provisions allowing the liberalisation of the postal market, offering equal opportunities and guaranteeing access to the public postal network. It aims also to expand the scope of universal postal services. Following the Act, a decree was adopted in June 2002 setting up an independent regulatory body within the existing Agency for Telecommunication and Broadcasting to cover postal services.

Overall assessment

Slovenia introduced full competition in the telecommunication area in 1 January 2001. The Telecommunication, Broadcasting and Postal Agency was established following the passing of the Telecommunication Act in May 2001, the Mass Media Act in April 2001 and the Postal Act in April 2002 with responsibilities to regulate the telecommunications, broadcasting and postal sectors. Much of the regulatory framework and institutional structure is in line with the *acquis*. However, the situation in the UMTS area is not satisfactory in terms of ensuring free and undistorted competition. The tendering procedure which was launched in 2001 under the previous Telecommunications Act led to a situation with only one market provider. Slovenia should take appropriate measures to improve the situation in this respect. Further efforts are needed to implement adequately the provisions of the telecommunications law, especially concerning operators with significant market power. Efforts to strengthen the administrative capacity of the National Regulatory Authority should be stepped up. Slovenia will need to transpose the updated telecommunications *acquis* before accession and to complete the implementation procedures as soon as possible.

Slovenia has not yet been able to evaluate the economic implications of fully implementing the universal service *acquis* so as to achieve affordability and a decision in this point remains outstanding.

In the postal area significant progress was made via the adoption of the new Postal Act. Slovenia should now concentrate on its implementation. Also, the relevant implementing legislation needs to be adopted. Efforts have to be made to ensure the financial, political and organisational independence of the National Regulatory Authority and to avoid any delays in the effective start-up of its functions.

Conclusion

In its 1997 Opinion, the Commission concluded that the telecommunications sector in Slovenia, with a modern infrastructure and advanced service, should be able to reach a level comparable to some of the EU Member States in the mid term. Implementation of the *acquis* would be possible in the medium term but would require early introduction of competition in all fields. The public network operator should be able to face full competition if tariff rebalancing were implemented before 2000.

Since the Opinion, Slovenia has made good progress in the telecommunications sector as well as in the postal area. Preparations for accession are advanced in both areas, however, competition should be improved in the telecommunications sector.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on effective implementation of the legislation related to operators with significant market power, improving competition in the telecommunication sector, especially in the UMTS area, and strengthening the administrative capacity of the National Regulatory Authority.

Chapter 20: Culture and audio-visual policy

Progress since the last Regular Report

Slovenia has made some progress regarding legislative alignment with the **audio-visual** *acquis* since the last Regular Report.

In December 2001 two decrees were adopted, one governing the method and criteria for formulating the list of most important events to which public viewing access should be ensured, and the other the criteria and conditions for the determination of Slovenian audio-visual works.

Slovenia has taken steps to participate in the Community Media Plus and Media Training programmes as of 2003.

In the field of **culture**, Slovenia's active participation in the Culture 2000 programme began in January 2002.

Overall assessment

With the adoption of the Mass Media Act in April 2001 and of the amendments to the Law on Radiotelevizija Slovenija in September 2001, Slovenian legislation is now largely aligned with the audio-visual *acquis*. However, some further fine-tuning of the Mass Media Act will be necessary before accession, in particular regarding the definition of European audio-visual works and the derogation of the obligation to broadcast European works in favour of local and regional broadcasters. In addition, the adoption of the secondary legislation provided for in the Mass Media Act has to be completed.

The Media and Audio-visual Culture Department within the Ministry of Culture carries out administrative supervision and inspection, and also drafts and implements legislation, in the media and audio-visual field. It monitors implementation of the Mass Media Act. However, with a staff of three people plus one independent inspector, it is seriously understaffed.

The Agency for Telecommunication and Broadcasting monitors programme requirements, following the Mass Media Act's provisions, and on the initiative of the Broadcasting Council. The administrative capacity of the Agency must be increased. Its own financial resources and responsibility for its own human resources would ensure the independence of the Agency.

Slovenia is a party to the Council of Europe Convention on Transfrontier Television and its amending Protocol.

Conclusion

In its 1997 Opinion, the Commission concluded that provided that the necessary legislative measures were pursued in line with the planned time-scale and were accompanied by the necessary structural adaptation of the industry, Slovenia should be able to meet EC requirements in the audio-visual sector in the medium term.

Since the Opinion, Slovenia has made significant progress in particular by adopting the Mass Media Act and by amending the law on Radiotelevizija Slovenija. Slovenia is well advanced in its preparations for accession in this field. The necessary administrative structures are in place.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts should now focus on completing the final legislative adjustments and on ensuring the proper functioning of the relevant administrative bodies.

Chapter 21: Regional policy and coordination of structural instruments

Progress since the last Regular Report

Since the last Regular Report, major progress has been made in preparing for the implementation of structural policies.

No new developments have taken place as regards Slovenia's **territorial organisation**.

There have been no particular developments since the last Regular Report regarding the **legislative framework**.

With regard to **institutional structures**, Slovenia adopted two government decisions in November and December 2001 which designated the management structures for the implementation of the Structural Funds and the Cohesion Fund. The Ministry of Economy was designated as the Managing Authority for the Single Programming Document and for the Cohesion Fund. The Ministry of Finance was designated as the future Paying Authority for all the Funds. The Ministry of Labour, Family and Social Affairs will have the leading role for the European Social Fund. Slovenia has also appointed the intermediate bodies for the individual Structural Funds and for the Cohesion Fund.

With regard to **programming**, Slovenia submitted its National Development Plan 2001-2006 to the Commission in December 2001. This plan serves as the basis for the establishment of the draft Single Programming Document as required by the Structural Funds Regulations. The preparation of the draft Single Programming Document and the programme complement started at the beginning of 2002.

In order to ensure that the **partnership principle** is applied, a Monitoring Committee has been set up to oversee the implementation of the National Development Plan. Membership of the Monitoring Committee has already been established, based on the partnership principle. Upon accession, and after the adoption of the Single Programming Document, this body will be transformed into the Single Programming Document Monitoring Committee.

With regard to **monitoring and evaluation**, in March 2002 the National Agency for Regional Development in the Ministry of Economy launched a project on monitoring regional development, in cooperation with the Institutes for Geography, Town Planning and Economic Research. Its aim is to establish the methodology for setting up a system of Single Programming Document and programming complement indicators.

No significant developments can be reported with respect to **financial management and control**.

As regards **statistics**, the compilation of regional data for analysis, evaluation and monitoring has continued.

Overall assessment

Slovenia has agreed with the Commission on its territorial organisation corresponding to NUTS level III. Furthermore, Slovenia has accepted a provisional NUTS II division until 2006 for programming purposes.

Slovenia is well advanced as regards the setting up of institutional structures. It has designated the bodies which are to be responsible for the implementation of the Structural and Cohesion Funds. However, the allocation of tasks has still to be completed. Steps must be taken to ensure effective inter-ministerial coordination. Slovenia will also have to step up its efforts to bring the administrative capacity of the Managing Authority and

the Paying Authority, intermediate bodies and other relevant bodies up to the level required. Project selection and decision-making should be managed within a framework that ensures transparency, efficiency and reliability in the implementation of Structural Funds assistance. Slovenia should also continue to work towards developing the necessary structures and coordination mechanisms to manage financial assistance from the European Social Fund in the context of the European Employment Strategy and the inclusion process.

With regard to programming, the adoption of the National Development Plan for 2001-2006 and Slovenia's decision to opt for a Single Programming Document are important steps forward. However, Slovenia still needs to further improve its programming capacity. To that end, there will need to be efficient and effective inter-ministerial cooperation and partnership throughout the whole process of preparing the draft Single Programming Document. The National Development Plan should present a comprehensive Human Resources Development strategy. A policy frame of reference for human resources development needs to be prepared before the end of 2002. Further progress must also be made with the technical preparation of projects eligible for Structural and Cohesion Funds assistance (project pipeline).

Work on ensuring compliance with the *acquis* requirements for monitoring and evaluation must continue, in particular as regards the ex-ante evaluation of the draft Single Programming Document. To ensure effective and efficient implementation of the Structural Funds programmes, it is crucial that an effective monitoring system should be up and running in good time. The monitoring system Slovenia is envisaging will need to be developed further in order to cover adequately the monitoring and reporting needs of the Structural Funds. Implementation of the general Structural Funds IT system and its interface with the ESF IT module needs to be carefully monitored.

Slovenia is generally well advanced in the field of financial management and control. It is finalising the specific procedures for financial control, auditing, certification of expenses and correction of irregularities specifically applicable to the Structural and Cohesion Funds. However, the appropriate systems and procedures for financial management and control still need to be strengthened, in particular as regards the structure of the Managing Authority and Paying Authority. Financial flows between Paying Authority, Managing Authority, intermediate bodies and final beneficiaries need to be defined. Internal audit units have been established in the ministries responsible for the implementation of the Funds. The central audit service within the Budgetary Supervisory Service coordinates these services. However, these departments still need to be strengthened and the training of internal auditors should be a priority in this respect. Common guidelines for the internal audit services still need to be drawn up. Slovenia has introduced multi-annual planning of budgetary expenditure. Its budgetary legislation also contains sufficient flexibility to transfer allocations between funds and priorities.

As far as statistics are concerned, more needs to be done to bring them up to the level required for programming, monitoring and evaluation, in particular as regards ex-ante evaluation.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovenia was establishing a regional development policy adapted to its regional disparities, and commented that, given the

small size of the country, Slovenia's regional policy should be formulated within the framework of its national development policy. The Commission added that, although measures remained to be taken to upgrade Slovenia's institutional structure in this field, its administrative capacity seemed sufficient to implement integrated regional development programmes efficiently, and that, subject to these modifications, Slovenia should, in the medium term, be ready to apply the Community rules and channel funds from the EC structural policies.

Since the Opinion, Slovenia has made steady progress in legislative terms, and, more recently, has moved forward with developing the necessary administrative capacity. The level of preparations for accession in this area is good, but administrative capacity and the necessary monitoring, evaluation and control systems needed for implementation of the Structural and Cohesion Funds need to be developed further.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia should focus further efforts on clearly defining the final implementation structures and further reinforcing their administrative capacity, strengthening inter-ministerial cooperation and partnership, and further reinforcing systems and procedures for effective monitoring, financial management and control.

Chapter 22: Environment

Progress since the last Regular Report

Since the last Regular Report, Slovenia has made good legislative progress through the adoption of important framework laws. As a result, Slovenia's legislation is, to a large extent, harmonised with the environmental *acquis*, with a notable exception in relation to transposition of the Integrated Pollution Prevention and Control (IPPC) directive which is still delayed. Administrative capacity, already of a high level, has been further strengthened.

With regard to the **integration of environment into other policy areas** and the promotion of sustainable development, the Strategy for the Economic Development of Slovenia has been further implemented with a view, in particular, to transport, energy and agricultural policies.

In the field of **horizontal legislation**, no specific new developments took place during the reporting period. The act ratifying the Kyoto Protocol was adopted in June 2002.

As regards **air quality**, two governmental decrees on the emissions of halogenated volatile organic compounds (VOCs) from installations were adopted in May 2002, thus completing the harmonisation of the Slovenian legislation with the environmental *acquis* on VOCs.

In the **waste management** sector, the Government adopted the operational programme for the recovery and recycling of packaging waste for the period 2002-2007 in March

2002. In addition, a decree on the waste disposal tax was adopted in September 2001 and a decree on the tax on the use of lubricating oils and fluids was passed in January 2002.

Slovenia made significant progress on **water quality** in the reporting period by adopting the Water Act in July 2002. The law is based on a number of EC directives and concerns the management of the whole water system (sea, land and underground waters as well as coastal areas). It foresees the setting up of a special Water Fund which will be managed by the Environment Ministry. Slovenia has also adopted secondary legislation with a view to transposing some of the provisions of the Water Framework directive. Some rules for the measurement and operational monitoring of waste waters were adopted in December 2001. With the adoption in May 2002 of the decree regarding discharges from plants and facilities for the washing and dry-cleaning of textiles, the Slovenian legislation is now aligned in the area of the discharge of dangerous substances. Finally, with the adoption of two decrees on surface waters, the Slovenian legislation is also now aligned with the environmental *acquis* on surface waters intended for aquaculture.

In the field of **nature protection**, progress has been made with the adoption of the order on living conditions for, and welfare of, wild animals kept in captivity. With this order, the legislation of Slovenia is in alignment with the environmental *acquis* on this issue. In addition, strategies for the management of brown bears and for bio-diversity conservation in Slovenia were adopted in January 2002. Progress has been made in the preparation of special protection areas under the wild birds directive.

As regards **industrial pollution control and risk management**, some progress has been made concerning the directive on major accident hazards (Seveso directive) with the adoption of a decree on the content and drawing up of protection and rescue plans in January 2002, and of a decree on the reduction of risk to the environment caused by major accidents involving chemical substances in May 2002. The Slovenian legislation is now harmonised with the *acquis* on pollution by asbestos following the adoption of the rules for the removal of materials containing asbestos. Some decrees were adopted in the reporting period in relation to the Integrated Pollution Prevention and Control directive. However, this key act of the environmental *acquis* is not yet fully transposed. With the adoption of a decree on the emission of substances into the air from large combustion plants, Slovenia has reached harmonisation in this area. The National Programme on Protection against Natural and other Disasters was adopted in May 2002 covering the period until 2007.

In the fields of **genetically modified organisms (GMOs)** and of **chemicals**, good progress has been made with the adoption of the law on genetically modified organisms in July 2002. The law lays down measures for preventing harmful effects on the environment, particularly with a view to preserving biodiversity, public health and consumer products. It also regulates import-export related issues. A special commission is foreseen to monitor the situation and the developments in the sector.

No progress has been made in the field of **noise** in the reporting period.

In the field of **nuclear safety and radiation protection** (*see also Chapter 14 – Energy*), good progress has been made by adopting the Ionising Radiation Protection and Nuclear Safety Act in July 2002. In line with EU regulations and EURATOM standards, the law regulates nuclear safety, based on a number of principles on the safe use of sources of nuclear radiation (increased protection, limit doses, peaceful use, primary responsibility,

subsidiary measures, etc). Responsibilities in cases of exposures to radiation are defined in detail so as to be able to efficiently implement administrative procedures and monitoring.

As regards **administrative capacity**, the structure of the Ministry of Environment and Spatial Planning (MoESP) has been simplified and streamlined. There is now one less State Secretary (water), and these functions have been transferred to the State Secretary responsible for the environment. Units within the MoESP have been strengthened through the re-organisation and refocusing of responsibilities, including the establishment of a Project Preparation Unit (PPU) with a staff of 7 to manage environmental investment projects concerning infrastructure financed by the EU. The Environmental Agency (EA) was established by combining the former organisations of the Nature Protection Authority (NPA), the Hydrometeorological Institute (HMI) and the Geophysical Institute, and is now fully operational. The Nature Conservation Institute started to operate in January 2002.

Overall assessment

While Slovenia has achieved considerable alignment with the EC environmental *acquis*, further progress in this area should still be made. The legislation transposing the Integrated Pollution Prevention and Control directive remains to be adopted. More efforts should be made to complete the transposition and start implementation of this important directive, while also completing transposition of environment impact assessment legislation, certain aspects of air quality legislation as well as nature protection, radiation protection and noise.

Administrative capacity of the institutions responsible for environmental protection seems to be adequate in general. The number of staff dealing with EU environmental issues has increased by nearly 50% in the last four years. However, further strengthening could be useful in certain areas, such as the chemicals sector (especially for) or in relation to IPPC (depending on the final legal framework for the operation of the regime). In addition, co-ordination with local authorities needs to be improved and their involvement in the development of environmental policy and legislation should be enhanced.

Permitting is at present fragmented and media based, in particular in the area of IPPC, thus creating some problems in relation to co-ordination. Slovenia has indicated that it will opt for one fully integrated permit issued by a single authority at national level. Responsibility in this respect will be with the Ministry of Environment and Spatial Planning. Some further planning to achieve better co-ordination of available data could be carried out, especially in relation to IPPC.

Monitoring procedures especially for air and water quality are well developed and include all the necessary steps to ensure quality of monitoring results and reporting. Inspections are based on site visits and inspectors are adequately empowered to carry out their duties. Enforcement includes the possibility of issuing fines, prosecution by criminal law, prohibition of use of facilities, processes, substances and means of transport. For the adequate implementation of the relevant EC directives an effective enforcement mechanism should be established, in particular in the areas of IPPC, chemicals and biocides.

The waste management system is well developed with management plans in place including the new plan for packaging waste. Efforts to complete the network of disposal installations need to be continued.

Considerable investments need to be secured, also in the medium-term, to ensure the implementation of the environment *acquis*.

Conclusion

In its 1997 Opinion, the Commission concluded that full transposition of the environmental *acquis* could be expected in the medium-term, if the existing plans for new framework and secondary legislation were realised and if the National Environmental Action Programme and environmental accession strategy were quickly adopted. However, effective compliance with a number of pieces of legislation requiring a sustained high level of investment and considerable administrative effort could be achieved only in the long term (e.g. urban waste water treatment, drinking water, aspects of waste management and air pollution legislation).

Since the Opinion, Slovenia has achieved a considerable degree of legislative alignment with the *acquis*. Investments in the environment sector have contributed to improving the situation in this area. However, implementation and enforcement of the *acquis* in this area continue to constitute a challenge for the future, in particular because of the need to increase the involvement of local authorities. Administrative capacities have been strengthened.

Negotiations on this chapter have been provisionally closed. Slovenia has been granted transitional arrangements with regard to packaging and packaging waste until the end of 2007, for the adaptation of fifteen existing installations to the requirements of the Integrated Pollution Prevention and Control (IPPC) directive until September 2011, and for urban waste water treatment until the end of 2015. Slovenia is meeting the majority of the commitments it has made in the context of the accession negotiations. However, delays have occurred in the transposition of the IPPC legislation compared to the timetable agreed in the negotiations, and the water act was adopted later than had been scheduled.

In order to complete preparations for membership, Slovenia's efforts now need to focus on finalising transposition (in particular the Directive on Integrated Pollution Prevention and Control) and on finalising the preparatory steps to ensure implementation.

Chapter 23: Consumers and health protection

Progress since the last Regular Report

During the reference period limited progress was made in this sector.

No particular progress can be reported with respect to **safety and non-safety related measures** since the last Regular Report.

In May 2002 the government adopted the Consumer Protection Programme for 2002.

Some progress has been made in developing a **functioning market surveillance mechanism**. Activities to develop out-of-court procedures for dispute settlement in the area of financial services - cross-border transfers - started in the second half of 2001 (*see Chapter 4 - Free Movement of Capital*). The national contact point for non-food notifications under the TRAPEX system, which connects the market surveillance authorities of Central and Eastern Europe applicant countries, is located in Ljubljana and operates from the premises of the Trade Inspectorate within the Ministry of the Economy. Slovenia has been a member of TRAPEX for two years. In 2001 the Trade Inspectorate received 108 non-food notifications and sent seven notifications to the TRAPEX secretariat. Up to May 2002 the Inspectorate received 58 notifications and sent 3 notifications to the TRAPEX secretariat.

As regards administrative capacity, training activities took place in 2001 for representatives of the Office for Consumer Protection and two representatives of the non-governmental consumer organisations.

As regards consumers' organisations, in 2001 Slovenia continued to promote the activities of consumer NGOs related to consumer advice, information and education. Activities carried out by consumer organisations included a project on the impact of globalisation on consumers, a study on the opening of the electricity market and protection of consumer interests, and a study on labelling of food and non-food products.

Overall assessment

In the field of safety measures, legislative alignment is already rather advanced and key framework legislation and implementing measures have already been adopted. The main outstanding issue is the adoption of the amendments to the Consumer Protection Act, which would transpose several EC directives mainly in the non-safety area (misleading and comparative advertising, product liability, doorstep contracts, unfair contract terms, timeshare, distance contracts, injunctions and guarantees). Timely adoption of the amended Law and its effective implementation are key for finalising Slovenia's preparations for accession in this area.

The various structures created to implement consumer protection policy are generally functioning smoothly. The institutions responsible for the implementation and enforcement of health and consumer protection are the Office for Consumer Protection, the Trade Inspectorate and the Health Inspectorate and the competent courts (i.e.: Civil Court). The Health Inspectorate within the Ministry of Health controls the implementation of regulations and measures for protection of health in the public interest. This Inspectorate, which currently employs 138 inspectors in total, deals with sanitary inspection. It is also in charge of medical safety of goods and their components, in particular foodstuffs, toys, cosmetics and dangerous substances. The number of inspectors and laboratory staff needs to be reinforced. The Trade Inspectorate within the Ministry of the Economy employs 16 people in its main office in Ljubljana (*see also chapter 1 – Free movement of goods*). There are also offices at the regional level. The Inspectorate, which co-ordinates local inspectors, inspects the goods on the market with particular attention to safety, prices and labelling/packaging. It also handles issues related to the Transitional Rapid Exchange of Information System (TRAPEX). The Office for Consumer Protection within the Ministry of the Economy was founded in 1996 and currently employs 6 people. The Office is responsible for implementing consumer policy. It deals with the relevant legislation and co-ordinates activities on consumer protection

within other inspectorates and ministries. The Office is also responsible for promoting and supporting the non-governmental consumer organisations. The Office for Consumer Protection implements the National Consumer Protection Programme for 2001-2005. Implementation of the programme is hindered by severe lack of funding. There are approximately 12 non-governmental consumer organisations working in the field. These NGOs are carrying out some of the tasks of the Office for Consumer Protection, with co-financing by the Slovene Government in areas such as advising consumers and distributing information. However, further efforts will be needed to strengthen the main bodies in charge of enforcing consumer policy. In particular, staffing problems still exist in the Office for Consumer Protection; an increase of 5 more officials was planned but it did not take place.

The existing system for out-of-court dispute settlement represented by the Arbitration Boards requires more support from the Government, and the Boards' members will need additional specific training so as to facilitate the efficient settlement of disputes.

The Co-ordination Secretariat of the TRAPEX system, connecting the market surveillance authorities of Central and Eastern European applicant countries, is located in Ljubljana and operates from the premises of the Trade Inspectorate within the Ministry of the Economy.

Support for consumer organisations in Slovenia is provided in order to enable them to protect consumer interests effectively. Nevertheless, some of the NGOs dealing with consumer protection have raised concerns about the availability of public information on food monitoring as well as about public funds for consumer information, which are decreasing. Proper access of information provided by TRAPEX should also be provided to NGOs.

In conclusion, Slovenia should take several issues into consideration when operating the market surveillance system of non-food products. In particular, Slovenia should give greater importance to ensuring that unsafe products are not introduced into the national market. It should clarify which bodies have responsibility for developing and operating the national strategy on consumer protection and for market surveillance of products, and provide adequate funding for the relevant market surveillance authorities and, in particular, for the testing of products. Furthermore, it should carry out an effective policy for ensuring co-ordination of the activities of market surveillance authorities and develop a mechanism whereby market surveillance authorities can communicate rapidly and reliably with each other. It should also set up a group with appropriate status and influence to advise the government on consumer protection issues and market surveillance strategies.

Conclusion

In its 1997 Opinion, the Commission concluded that, in spite of the inadequate legal situation, the prospect for legislative developments in alignment with the EC *acquis* appeared positive in the medium-term provided work continued. Efforts needed to be made to realign national law with the *acquis*. Slovenia needed to agree urgently the draft Consumer Protection Act as well as a number of other amendments intended to strengthen consumer protection, notably on general product safety.

Since the Opinion, Slovenia has made good progress in legislative alignment and in developing the necessary administrative capacity in this area.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements in this area. Slovenia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on completing transposition of the above mentioned outstanding *acquis*, ensuring that the administrative structures in place effectively fulfil their task in terms of market surveillance, and increasing consumers' and producers' awareness.

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

Progress since the last Regular Report

Since the 2001 Regular Report, further progress has been made in Slovenia in the fields of data protection, migration, asylum, police co-operation, and the fight against organised crime. However, little progress can be reported in the area of drugs.

Concerning **data protection**, the Law on Classified Information was adopted in October 2001. It regulates the protection of classified information in state institutions, among other things by setting criteria for officials who have access to such data. It also includes provisions on international exchange of classified information. Several regulations concerning data protection were adopted in the reporting period. The Government Office for the Protection of Classified Data was established in March 2002. (*see also chapter 3 – Freedom to provide services*).

Slovenia and Bulgaria signed an agreement in November 2001 on abolition of visas and co-operation in a number of areas (*see below*). The installation of the on-line system for issuing visas has continued and now over half of the Slovenian missions abroad are covered. Slovenia's **visa policy** is in line with that of the EU.

The Law on Construction of Infrastructure and Buildings at Border Crossings adopted in December 2001 is aimed at accelerating the construction of facilities at the future EU **external border** in line with the Schengen/EU requirements. It introduces simplified procedures to obtain building permits and for purchase of land. A new specialised unit responsible for border control was created in the General Police Directorate in June. Over 500 new border guards were recruited in the year 2001 as foreseen by the **Schengen** Action Plan. In a regrettable development, the government has approved in August 2002 the appointment of only 392 police staff in 2002 and 200 in 2003 instead of the 700 in 2002 and 540 in 2003 foreseen in the Schengen Action Plan. The Government has decided that additional personnel will be transferred from the customs to the police in 2004 to remedy the shortfall. Upgrading of police equipment and border-crossing points has continued. The number of illegal immigrants apprehended decreased by 42% in 2001 compared with the previous year and by 68% in the first four months of 2002 compared with the same period the previous year.

On **migration**, a protocol on the implementation of the readmission agreement between Slovenia and the Federal Republic of Yugoslavia was approved by the government in November 2001. It regulates the implementation of the agreement and the responsibilities

of the various authorities. The Ministry of the Interior prepared a report in May on the situation concerning illegal immigration and the measures adopted to prevent it. It noted that there had been a drop in illegal border crossings. A readmission agreement with Bosnia and Herzegovina was signed in March.

Concerning **asylum**, amendments to the Law on Temporary Protection were adopted in July. These aim at improving the status of the displaced persons from Bosnia and Herzegovina who have had temporary protection status for up to 10 years (*see section B.1.2. – Human rights and the protection of minorities*).

Regarding **police co-operation and the fight against organised crime**, the co-operation agreement with Europol was ratified by the Parliament in February. Implementation of the agreement has started and an information link with the headquarters of Europol has been established. The agreement with Bulgaria on co-operation in the fight against organised crime, illicit drugs, trafficking of precursors, and terrorism, signed in November 2001, was ratified in February. A co-operation agreement on fighting organised crime was signed with Estonia in June. Together with Croatia, Hungary, and Italy, Slovenia signed a declaration of Interior Ministers on co-operation in fighting illegal immigration and organised crime in November 2001. Since the previous Regular Report, Slovenia has appointed a National Co-ordinator for combating trafficking in human beings. In November 2001, Slovenia signed the additional Protocol on firearms to the 2000 UN Convention against Transnational Organised Crime.

Concerning the **fight against terrorism**, Slovenia signed the International Convention for the Suppression of the Financing of Terrorism in November 2001.

Regarding the **fight against fraud and corruption** (*see Section B.1.1 - Democracy and the rule of law*), no further developments are to be reported as regards alignment with the Convention on the Protection of the Financial Interests of the European Communities and its protocols.

No new developments have taken place since the last Regular Report concerning the **anti-drugs** policy.

As concerns the fight against **money laundering** (*see also Chapter 4 – Free movement of capital*), amendments to the Money Laundering Act were adopted in June. These expand the range of professions covered by the legislation to attorneys, notaries, auctioneers, and art dealers and impose some additional obligations on them. The purpose of the amendments is to bring the legislation into line with the *acquis*.

In the field of **customs co-operation**, the upgrading of the information technology system of the customs administration has continued.

No new developments have taken place since the last Regular Report on **judicial co-operation in criminal and civil matters**.

Overall assessment

With the adoption of the Law on Classified Information the legislative framework for data protection is now in place. Slovenia should ensure that the newly created supervisory institutions consisting of a Deputy Ombudsman dealing with data protection issues and

an inspectorate in the Ministry of Justice are given adequate resources to fulfil their tasks and that their powers are in line with the *acquis* requirements. Slovenia is a party to the Council of Europe Convention on the Protection of Individuals with regard to Automatic Processing of Personal Data since 1994.

Slovenian visa policy is fully aligned with that of the EU now that Romanian nationals no longer need a visa to enter the territory of the EU Member States.

The implementation of the measures to improve border control continued in 2001 in accordance with the Schengen Action Plan. However, it is regrettable that staff recruitment plans have been changed from what was foreseen in the Action Plan. As the decision was made only recently, it is too early to assess the effect of these changes to Slovenia's capacity to ensure the required level of border control in what will become the future external border of the EU. The measures to improve border control are co-ordinated by a special working group in the General Directorate of the Police. The actions are focussed on the green border with Croatia, which will become the external border of the EU after Slovenia's accession. An agreement with Austria on cross-border police co-operation remains to be ratified. Agreements with Hungary and Italy on cross-border police co-operation are being prepared. The new Border Act defining the bodies responsible for border control and surveillance still remains to be adopted.

As far as migration is concerned, the entry and residence of foreign nationals is regulated by the Law on Foreigners. Part of the implementing legislation has been adopted – but a decree concerning issuing of residence permits and amendments to the Law on Foreigners regarding family reunification, employment of third country nationals and carrier liability still remain to be adopted. Slovenia has readmission agreements with 23 countries including Austria, Belgium, Bulgaria, Canada, Croatia, Denmark, Estonia, France, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Macedonia, the Netherlands, Poland, Romania, Slovakia and Switzerland.

The basic legislation on immigration and asylum has been in place since 1999. Implementing legislation for the Asylum Act regulating the rights of asylum seekers and the procedure for handling asylum applications remains to be adopted. Slovenia has revoked the earlier government decision to consider Croatia a safe third country and is consequently in line with the *acquis* on this matter. The asylum home has been separated from the Centre for Foreigners (the deportation centre for illegal immigrants). The conditions in the building are adequate and over-crowding is no longer a problem as the number of asylum seekers has fallen. The number of asylum seekers has fallen to about 1 500 from the high level of the year 2000 (13 000 in 2000 and 800 in 1999) and the backlog of pending asylum applications has been eliminated. Many of the asylum seekers leave the country after they have filed an application. The amendments to the Asylum Law introduced last year on manifestly unfounded applications contribute to preventing backlogs. The National Action Plan on Asylum provides the framework for further measures in this area.

In the field of **police co-operation and the fight against organised crime**, the implementation of the co-operation agreement with Europol is progressing smoothly. Slovenia has started sending liaison officers abroad. Concerning trafficking of human beings, Slovenia is both a transit and a destination country. It is estimated that about 2 000 women have been trafficked through Slovenia into the EU. Although there is no particular law specifically prohibiting trafficking, provisions in the legislation can be

used to penalise traffickers. The government is making efforts to improve the measures to eliminate trafficking, for instance by improving border controls, and international organisations recommend that these should include more effective prosecution of traffickers and provision of protection for and assistance of victims. Statistical instruments for measuring crime rate should be improved, while new methods of technical crime investigation, including development of forensic investigation should be further developed. Slovenia has signed but not yet ratified the UN Convention against Transnational Organised Crime (Palermo Convention) and its three protocols.

The legislative framework in the area of the fight against **fraud and corruption** is in place. The Penal Code contains legal provisions which, to a great extent, adapt it for Slovenia's eventual accession to the Convention on the Protection of the EC's Financial Interests. However, some amendments to the Penal Code are still needed to complete alignment. The Council of Europe Civil Law Convention on Corruption remains to be ratified. An institutional framework for combating fraud and corruption exists including specialised units in the police and an Office for Prevention of Corruption. The office is, among other things, providing training in this area. Once adopted, the anti-corruption strategy prepared by the Office should contribute to improving co-ordination between the different law enforcement bodies to fight organised crime. Slovenia should pay more attention to the fact that prevention through transparency and accountability standards is as important as repressive tools.

The legislative basis for prevention of **money laundering** is in place and has been amended to increase the coverage of professions. The National Office for Money Laundering Prevention continues to act as the Slovenian Financial Intelligence Unit.

The legal framework in the area of illicit **drugs** is in place. However, the National Programme for Prevention of Drug Abuse still remains to be adopted. Further strengthening of the institutions would enable the authorities to tackle drug problems more effectively. Strengthening of border control especially at the borders with Croatia and Hungary is important for ensuring effective control of drug transit. Government statistics on drug-related crime indicate a considerable increase in the 1990s. Slovenia is also increasingly becoming a drug consumer country in addition to being a transit country on the Balkan route.

Concerning **customs co-operation**, co-operation with OLAF has been effective.

Regarding **judicial co-operation in criminal and civil matters**, Slovenia has extradition agreements with Austria, Croatia, France, FYROM, Germany, Italy, Romania and Turkey. Slovenia should take further measures to ensure implementation of the Community instruments in the area of judicial co-operation in civil matters, notably as regards mutual recognition and enforcement of judicial decisions. Direct contact between competent judicial authorities should be made possible.

All the **human rights** legal instruments which are part of the justice and home affairs *acquis* have been ratified by Slovenia.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovenia had for the most part demonstrated its capacity to make progress on key justice and home affairs issues,

notably immigration and border control. The Commission added that, assuming progress was made on other issues, especially with regard to the judiciary and the full adoption of the asylum *acquis*, and systems to tackle organised crime were developed further, Slovenia should be able to meet the justice and home affairs *acquis* (present and future) within the next few years.

Since the Opinion, good progress has been made in legislative alignment and in strengthening the institutions in this area. The legal framework is largely in line with the *acquis* and administrative capacity is rather developed, but needs further strengthening.

Negotiations in this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements in this field. Slovenia is generally meeting the commitments it has made in the accession negotiations in this area.

In order to complete preparations for membership, Slovenia's efforts now need to focus on introducing further reforms to reduce the backlogs of pending court cases, on finalising legislative alignment (asylum, migration), on adopting the long overdue national anti-drugs programme, and on continuing to implement the measures foreseen in the Schengen Action Plan.

Chapter 25: Customs union

Progress since the last Regular Report

Further progress has been made in this area since the last Regular Report.

Regarding alignment with the **customs *acquis***, the Act Regulating Customs Measures Relating to Infringements of Intellectual Property Rights entered into force in November 2001, laying down new tasks of the Customs Service in controlling counterfeit and pirated goods, together with implementing rules. An Act amending the Customs Act was adopted in June 2002 incorporating further alignment on the Community *acquis* in line with the revised Kyoto Convention. It regulates for instance the repayment of import duty in inward procedures under the drawback system and the validity of binding tariff information.

In the area of **administrative and operational capacity** two implementing regulations of the Customs Act were adopted during the reporting period on the competencies of customs officers related to stopping vehicles and on handling confidential information. Further training for customs officers has been provided. Slovenia continued to make progress on the development of a computerised transit system and computerised integrated tariff system.

Overall assessment

Slovenia's customs legislation is largely aligned on that of the Community. Slovenia has agreed to abolish the application of fees for handling customs documents and issuing authorisations by accession. The system of quota allocation by auctioning the right to import certain goods (sensitive agricultural products) within tariff quotas will have to be replaced by the first-come, first-served principle at the time of accession. It will also be necessary at the time of accession to abandon frontier formalities on the movement of non-Community goods, at what will then be internal frontiers within the Community.

Currently Slovenia's simplified procedure for the declaration of imported goods involves the deposit of a "summary declaration" upon entry into Slovenia.

In the field of administrative and operational capacity the Slovene customs authorities have experience in applying similar legislation and measures to those of the Community, although in the area of controlling counterfeit and pirated goods this was only recently acquired. The administration is preparing to introduce the Common Transit system in advance of accession. The introduction of the possibility of cash guarantees could lead to some administrative difficulties for border offices, which are not equipped to handle large amounts of cash. The customs technical laboratory would not at present have sufficient capacity to meet the demand for analyses of agricultural products after accession, but an increase in capacity is planned for 2002.

As regards computerisation, Slovenia is very well advanced concerning preparations for interconnecting to Community systems. All interconnectivity issues have been addressed.

Conclusion

In its 1997 Opinion the Commission concluded that if Slovenia continued major efforts to align its organisation and staff to the duties that have to be carried out by a modern customs administration, it should be able to meet EC requirements in the next few years.

Since the Opinion, Slovenia has made good progress on aligning its legislation as well as with regard to improving administrative and operational capacity. Slovenia is already very advanced both regarding legislative alignment as well as administrative capacity, including computerisation, in this area.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to be focused on implementing the planned schedule for achieving interconnectivity with Community information technology systems, integrating a risk analysis module into the customs entry-processing system and continuing with the planned increase in capacity of technical laboratory facilities and with reinforcing the border, that will in the future become the EU's external border. In addition Slovenia needs to take the necessary steps to prepare for the application of measures and provisions that will be introduced only at the time of accession.

Chapter 26: External relations

Progress since the last Regular Report

Since the previous Regular Report Slovenia has continued to align with the *acquis* on common commercial policy and to co-ordinate positions and policies within the World Trade Organisation (WTO) with the EU, in particular with regard to the Doha Development Agenda negotiations.

As regards the **common commercial policy**, upon accession Slovenia will be required to align its tariffs with those of the EC. Slovenia's applied tariffs currently average 8.9%

(MFN) on all products, 13.4% on agricultural products, 6.7% on fishery products and 8.0% on industrial products. By comparison, EC tariffs currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

As regards **bilateral agreements with third countries**, Slovenia and Croatia signed in May 2002 an additional protocol to the bilateral free trade agreement, by which customs duties for industrial products were entirely abolished on both sides. In the reporting period, the free trade agreement with Bosnia and Herzegovina entered into force in January 2002.

Slovenia's **development policy and humanitarian aid initiatives** are mainly focussed on South Eastern Europe. However, Slovenia is also co-operating in programmes of international financial institutions and UN multilateral programmes. In accordance with its Strategy on Engagement in the Economic Reconstruction of South Eastern Europe Slovenia is participating in the Stability Pact for South Eastern Europe as an active provider of humanitarian aid, technical assistance and co-financing of bilateral projects.

In October 2001 the government adopted memorandums on non-refundable aid to Bosnia and Herzegovina, FYROM and Montenegro, which are part of the development and economic aid allocated under the Stability Pact for South Eastern Europe. Total bilateral and multilateral external assistance given by Slovenia to developing countries in 2001 amounted to EUR 2.95 million.

In March 2002 the government decided to set up a special co-ordinating unit within the Foreign Ministry in charge of allocating development funds as well as humanitarian aid. The Ministry stressed the need to institutionalise the allocation of humanitarian aid and development funds prior to Slovenia's accession to the EU.

Overall assessment

The EU and Slovenia have established a framework for cooperation regarding WTO issues both at ministerial and at departmental level. Slovenia has been supportive of EU policies and positions within the WTO framework, in particular also during the preparation for and the launching of the Doha Development Agenda. This close co-operation should continue. In September 2001 Slovenia completed the ratification procedure for the Ministerial Declaration on Trade in Information Technology products and thus became the 56th party to this Declaration. Slovenia is an observer to the WTO plurilateral agreement on Government Procurement. With regard to the WTO Agreement on Trade in Textiles and Clothing (ATC), co-ordination has taken place within the third stage of integration under the ATC to align Slovenia's integration programmes with those of the EC. Close co-ordination is ongoing and should continue to ensure the smooth alignment of Slovenia's GATS commitments with the EC's commitments and MFN exemptions, and steps have been defined to this extent.

With the legislation on dual-goods adopted in March 2000, Slovenia has reached a high level of approximation to the *acquis* but further alignment is necessary. Slovenia will have to report on its progress in aligning to the most recent *acquis*, although full alignment to the *acquis*, in particular concerning general export authorisations, can only take place upon accession. Slovenia keeps the industry regularly informed of

developments in this field and has developed bilateral contacts with the EU Member States to exchange best practices on export control issues.

In addition to its bilateral free trade agreements signed with Turkey, Israel, Croatia, FYROM, Bosnia and Herzegovina, Latvia, Lithuania, Estonia and EFTA, Slovenia is a member of CEFTA. Slovenia needs to ensure that the Union is kept fully informed about existing trade agreements and about any negotiations aimed at the conclusion of the new trade agreements with a third country. Prior to accession, Slovenia will need to renegotiate or renounce all international agreements concluded with third countries that are incompatible with its future obligations as an EU Member State.

Administrative structures in this area are in place. The Ministry of Economy administers Slovenia's alignment with and future participation in the common commercial policy. The administrative infrastructure that needs to be in place with respect to customs services is discussed in the chapter on customs union (*see Chapter 25 – Customs union*).

Conclusion

In its 1997 Opinion, the Commission concluded that Slovenia was well placed to meet Community requirements in this field, provided that the question of the need for export controls on dual-use goods was dealt with rapidly.

Since the Opinion, Slovenia has made substantial progress and has achieved a high level of alignment with the *acquis*, in particular with regard to export credits. Slovenia's preparations for accession are advanced in this area.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements in this area. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on finishing the process of legislative alignment, including ensuring that its bilateral agreements with third countries are in full conformity with its EU membership obligations, as well as on ensuring that the capacity exists to fully implement and enforce the EC *acquis* in this field upon accession.

Chapter 27: Common foreign and security policy

Progress since the last Regular Report

Since the previous Regular Report, Slovenia has continued to position its foreign and security policy in line with that of the European Union.

The regular **political dialogue** established by the Association Agreement with Slovenia is proceeding smoothly and Slovenia has played a constructive role within the framework of the Common Foreign and Security Policy (CFSP), including meetings at the level of Political Directors, European Correspondents and Working Groups. In October 2001 Slovenia hosted the Second Joint Meeting of Political Directors and European Correspondents of the EU and candidate countries.

Slovenia has shown a keen interest in the development of the European Security and Defence Policy (ESDP) as part of the CFSP, and has actively participated in exchanges on this subject with the EU, in the EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU).

As regards **alignment with EU statements and declarations**, Slovenia has continued to consistently align its positions with those of the Union and, when invited to do so, has associated itself with the Union's common positions and joint actions.

Slovenia has continued to comply with **international sanctions and restrictive measures** imposed by the UN and the EU. Amendments to the law on limitation measures were adopted in June 2002. This law provides the legal basis for the implementation of international sanctions.

During the reporting period, Slovenia confirmed its preparedness to contribute both to the EU Rapid Intervention Force missions and to EU civilian instruments for crisis management. It participated in the Capabilities Improvement Conference in November 2001 on committing military capabilities for the future European Rapid Intervention Force and in the EU + 15 Defence Ministers' meeting in May 2002. It has shown an active interest in participating in the forthcoming EU Police Mission (EUPM) in Bosnia and Herzegovina.

Slovenia's relations with its neighbours remain good. The Slovene-Austrian Agreement on cooperation in culture, education and science entered into force in May 2002.

Slovenia and Croatia made progress last year in resolving a number of outstanding issues through bilateral agreements, however, their ratification has now come to a standstill causing tensions in the relations between the two countries. The ratification of the agreement on demarcation of the joint border initiated in July 2001 by both Prime Ministers has been stalled in the Croatian Parliament. The Croatian authorities are now questioning the agreement and the Croatian Prime Minister has called for the border issue to be resolved through international arbitration. The two Prime Ministers reached a temporary agreement in September 2002 valid for three months on the border. The agreement concerning the joint ownership of the Krsko nuclear power plant, which was due to enter into force in July this year, was ratified by Croatia in July, but has not yet been ratified by Slovenia. The Slovenian Constitutional Court is currently reviewing whether the agreement includes unconstitutional provisions. The Slovenian authorities have said that the agreement, due to the delay in the date of entry into force, needs to be adapted before it can be ratified. The multilateral convention of successor states of the Socialist Federal Republic of Yugoslavia (SFRY) regarding state assets, archives and debts was ratified in June. It settles issues in these areas resulting from the break up of the SFRY. Furthermore, the successor states agreed to negotiate on the guarantees for hard currency savings of individuals under the auspices of the Bank for International Settlements in Basel, and these negotiations have started. Hence, the debt of the Slovenian Ljubljanska Banka to its former account holders at the bank's former branches in the other successor states of the former SFRY still remains to be settled.

Slovenia has further supported the Stability Pact for South-East Europe by chairing the Working Table for human rights and minorities. In 2002 Slovenia earmarked SIT 405 million (approx. €1.8 million) worth of funds for projects and activities in the framework of the Stability Pact for South-East Europe.

As regards defence cooperation, Slovenia has made considerable efforts to support international peacekeeping missions and has participated in a series of UN and OSCE peacekeeping and observer operations. Slovenia has also ratified the Rome Statute establishing the International Criminal Court and has supported various international initiatives to fight terrorism. It has aligned with the EU Plan of Action concerning terrorism and with the common positions on combating terrorism. It has acceded to the relevant international conventions relating to terrorism. The Government has adopted a national report on anti-terrorist measures in compliance with the relevant UN resolution of December 2001.

Overall assessment

Slovenia continues to participate in regional cooperation schemes, including the Central European Initiative, the South East Europe Cooperation Initiative (SECI) and the Regional Partnership (Austria, Czech Republic, Hungary, Poland, Slovakia and Slovenia). It continues to support the Stability Pact for South-East Europe. Slovenia has developed bilateral agreements concerning co-operation in the areas of defence and military with a number of countries including European ones.

In terms of regional political dialogue, Slovenia has sought to strengthen its bilateral relations with neighbouring countries. Contacts at the highest political level, especially with Austria and Croatia, continue to be frequent. Nevertheless, some bilateral issues with Croatia still remain to be settled.

The legislative measures for participation in the CFSP have already been adopted.

Slovenia has subscribed to the content and principles of the EU Code of Conduct on Arms Exports, and these are reflected in the Act on the Export of Dual Use Goods.

As regards administrative capacity to implement the provisions relating to the CFSP, the Slovenian Ministry of Foreign Affairs is well staffed and functioning. The special unit for CSFP and ESDP within the Department for European Integration and Economic Relations in the Ministry of Foreign Affairs is headed by a Political Director for EU Affairs, who is assisted by two European Correspondents.

The Ministry of Foreign Affairs is connected to the Associated Correspondents' Network information system, through which the EU communicates with associated partners within the CFSP.

Conclusion

In its 1997 Opinion, the Commission concluded that Slovenia was well placed to effectively fulfil its obligations in the field of foreign and security policy.

Since the Opinion, Slovenia has made steady progress in aligning with the CFSP *acquis*, and its alignment is in general satisfactory at this stage. It has distinguished itself by the steps it has taken to promote regional security.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on ensuring that its foreign policy orientation remains in line with the Union's developing foreign and security policy. In particular, it should ensure that its national policies and practice continue to conform to the EU's common positions, should continue to defend these positions in international fora, and should continue to ensure that all sanctions and restrictive measures can be duly implemented.

Chapter 28: Financial control

Progress since the last Regular Report

Slovenia has made substantial progress in this area since last year's Regular Report.

In the area of **Public Internal Financial Control (PIFC)**, Slovenia substantially revised its Public Finance Act in March 2002 and adopted guidelines for PIFC systems as secondary legislation in July 2002. Internal audit services have been established in all line ministries. In July 2002 the Government also approved a PIFC Policy Paper, providing for an analysis of the present weaknesses in the Slovenian public control systems and for a basis for both primary and secondary legislation. A syllabus has been developed for the training and certification of state auditors in co-operation with the Court of Auditors over the reported period and will be put into practice in autumn 2002. The new laws on public administration and on civil servants, both adopted in June 2002, have strengthened the independence of the Director of the Budget Supervisory Service. The period of office of the Director is now independent of that of the Government, so that the position of Director can only be changed for professional reasons.

In the area of **external audit**, the Rules of Procedures of the Court of Audit were adopted in October 2001 based on the Court of Audit Act. Among other things they regulate in detail external audit methodology and procedures, elaborate rules for publicity and define the deadlines for the execution of individual tasks. The organisation of the Court of Audit was aligned with the Court of Audit Act.

Regarding **control over structural action expenditure**, Slovenia has introduced a management and control system to ensure proper implementation of the ISPA assistance. The set up of this system was generally considered adequate. Slovenia has already started the gap assessment exercise which is the first level leading to the extended decentralised implementation system (EDIS). In November 2001 the Commission adopted a Decision provisionally conferring management authority for SAPARD, on a fully decentralised basis, to the SAPARD Agency. The Commission's guidelines concerning certification of Slovenia's accounting procedures have been respected and judged satisfactory.

As regards **protection of the financial interests**, the Budget Supervisory Service in the Ministry of Finance was appointed as the anti-fraud co-ordinating service, responsible for the co-ordination of all legislative, administrative and operational activities related to the protection of the Communities' financial interests in July 2002. An Inter-Institutional Working Group was established at that same occasion with a view to ensuring effective co-operation with all other Slovenian institutions involved in the protection of the Communities' financial interests.

Overall assessment

In the area of Public Internal Financial Control the new Public Finance Act and the adopted secondary legislation is entirely in line with internationally accepted and EC standards relating to managerial accountability, functionally independent internal audit services in budget spending centres and centralised harmonisation of audit methodology. Tertiary regulations have been adopted by the Ministry of Finance in the form of an Internal Audit Manual including a Code of Ethics for the internal auditor, whereas line ministries will draft individual internal Audit Charters on the basis of the Internal Audit Manual. Manuals for financial management and control have also been adopted. The Court of Audit Act, adopted in January 2001, ensures adequate functioning of external audit. The Rules of Procedure, the Court's audit scope and the deliberation mechanisms with Parliament are in line with INTOSAI (International Organisation of Supreme Audit Institutions) standards. To complete alignment in the area of external audit, Slovenia needs to finalise the audit manual of the Court as soon as possible.

In the field of the protection of the Communities' financial interests, effective co-operation with the Commission (OLAF) and relevant Slovenian institutions and bodies through the anti-fraud co-ordinating service should now be established. This includes the establishment of an effective system for information exchange with the Commission (OLAF). Furthermore, a review of the applicable legislative framework should be carried out in order to determine whether any amendments are necessary to allow this service to carry out its co-ordinating role.

In the area of structural action expenditure a comprehensive description of the systems (audit trail) is still required. Slovenia needs to reinforce and accelerate efforts leading to the extended decentralised implementation system before mid 2003 in order to allow EDIS acceleration to be achieved in the second semester of 2003.

Conclusion

In its 1997 Opinion, the Commission concluded that while international standards of financial management and control and internal audit were being introduced in Slovenia in line with EU Member States' practice, institution building and implementation needed to be further developed and strengthened. The Commission added that continued efforts were necessary to strengthen financial control and audit functions.

Since the Opinion, significant progress has been achieved in upgrading the internal and external financial control systems for sound financial management, in ensuring sufficient control of structural action expenditure and in securing adequate protection of the financial interests of the European Communities. Slovenia's preparations for accession in these areas are well advanced.

Negotiations on this chapter have been provisionally closed. Slovenia has not requested any transitional arrangements. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on the effective implementation of Public Internal Financial Control in accordance with the new Public Finance Act and related regulations, on the management of pre-accession funds and future structural funds and on the reinforcement of the legislative framework

and the administrative capacity for the sound protection of the European Communities' financial interests.

Chapter 29: Financial and budgetary provisions

Progress since the last Regular Report

Slovenia has made progress in this area since the last Regular Report.

Further progress has been achieved concerning the **national budget and EC co-financed measures** with the amendments to the Public Finance Act adopted in October 2001. These amendments introduced the adoption of biennial state budgets, which, in addition to the annual preparation of a medium-term macro-fiscal framework, represents a step ahead in the medium-term budgeting. The state budget for the years 2002 and 2003 was adopted in December 2001 on the basis of the development priorities laid down in the Budget Memorandum for the period 2002-2005.

The formulation of medium-term documents preceding the national budget was further facilitated by amendments to the Decree on the Criteria and Procedures for the Preparation of the Draft National Budget adopted in May 2002. Modifications to the Rules on Implementation of the Budget, which were adopted in June 2002, improved the system of payments from the EC pre-accession funds and national co-financing. These changes aim at gradually aligning with the payment system used for the Structural Funds and the Cohesion Fund.

As regards the **own resources system**, appropriate steps have been taken to ensure adequate co-ordination between the various authorities involved in the application of the own resources system. Also, clear improvements have been made over the reporting period as regards the calculation of GNP in accordance with the European System of Accounts (ESA 95).

Intensive preparations have been initiated in the EC Budget Unit within the Ministry of Finance for adequate monitoring of the bases (customs and other traditional own resources, value added tax base, GDP) for calculating and reporting liabilities to the EC budget. Training of staff was carried out in this respect.

Overall assessment

The legal framework for budgetary management and for the transparency and efficiency of financial flows to and from the EC budget is largely in place. Regarding medium-term budget expenditure, all programming and monitoring mechanisms, including co-financing, have been established. With the adoption of the biennial budget for 2002 and 2003 important progress has been made towards medium-term budgeting.

Overall preparations for the application of the *acquis* on own resources are progressing well. All the institutions which will participate in the system of own resources already exist. A special unit, the EC Budget Unit, within the Budget Preparation and Management Division of the Ministry of Finance, co-ordinates the establishment of the necessary procedures, infrastructure and capabilities in the area of own resources. This unit currently employs three staff. An anti-fraud office, which *inter alia* will have the

responsibility as regards customs and VAT fraud, was already established in July 2001 and is currently employing seven out of a total of twelve envisaged staff.

Slovenia is already advanced in terms of its alignment with statistical legislation and is able to forecast its GNP and VAT base applying the ESA 95 methodology. Further quality and methodology improvements to national accounts and GNP calculations are still needed and efforts with regard to the exhaustiveness of the national accounts need to be sustained.

The national VAT legislation is almost in line with the *acquis*. Two additional revisions of the VAT Act are foreseen in 2003 which should abolish the remaining inconsistencies between the national system and the Community system and which should introduce provisions on taxation of intra-Community acquisition. For the purpose of own resources, considerable efforts are required in order to be able to calculate the weighted average rate (WAR) in accordance with ESA-95 and to determine the impact on the VAT base of any special arrangements agreed under the Taxation chapter. Slovenia should continue to participate in the VAT simulation exercise, which is the key tool for effectively testing Slovenia's capacity regarding the VAT resource. Sustained efforts are also needed to improve the actual collection of VAT.

The Slovenian national customs legislation is almost fully compatible with the *acquis* and Slovenia should be able to apply the EC Customs Code and its Implementation Provisions as of the day of accession. The administrative infrastructure as well as a sophisticated IT-system for customs clearance and accounting are in place and should be compatible with EC standards (TARIC) before accession. The validity of guarantees is automatically checked by the system. 97% of customs declarations are processed via EDI (Electronic Data Interchange). An IT-based risk analysis system is currently being introduced to support customs clearance.

Slovenia still needs to develop its reporting system on cases of fraud and irregularity, and certain other reporting and accounting requirements (the 'A' and 'B' accounts) still need to be set up in time for accession. Also, the procedures necessary for the collection of sugar production levies are not yet in place.

The necessary legal framework is in place and sufficient staff and an adequate infrastructure for establishing, accounting for and recovering customs duties and sugar levies are available. However, some improvements are still necessary in this respect by accession, and special provisions for sugar levies still need to be completed.

Conclusion

In its 1997 Opinion, the Commission concluded that, in order to ensure that own resources were established, monitored and made available in line with Community regulations, Slovenia would have to overhaul its current customs system. In addition, for the purposes of accurately calculating the GNP resource, considerable improvements would have to be made to the national accounts to ensure that they were reliable, homogeneous and complete. The Commission added that improving the statistics would also be essential for drawing up the VAT own resources base, which would mean bringing Slovenia's VAT system fully into line with the Community directives.

Since the Opinion, Slovenia has made considerable progress in these areas, in particular as regards the alignment of its customs system and progress in applying the ESA 95. The legal framework for budgetary management and for the transparency and efficiency of financial flows to and from the EC budget is largely in place. Slovenia is already well advanced in preparing for accession in this field.

Negotiations on this chapter continue. Slovenia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Slovenia's efforts now need to focus on further implementation of ESA 95 methodology, in particular on improving its calculation of the VAT base in compliance with ESA 95 and on improving the exhaustiveness of the national accounts for determining the GNP resource, so as to ensure the capacity to establish properly and make available the country's contribution to each of the own resources of the Communities. Slovenia will also need to determine which services will be responsible for establishing, accounting for and carrying out controls for sugar levies.

3.2. Translation of the *acquis* into the national languages

Applicant countries are required to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. Primary and secondary legislation alone represents a considerable volume of acts, roughly estimated at 60 000-70 000 pages of the Official Journal. In the framework of the translation of the *acquis*, the Court of Justice has defined a set of key judgements to be translated as a priority (representing about 15 000 pages). To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a dedicated database has been set up to act as a repository of all translated acts and as a tool through which candidate countries forward their translations to the Commission and the Council. The legal revisers of the Commission and the Council vet the submitted texts; they meet regularly and liaise with representatives of the centralised Translation Co-ordination Units in each country.

The Translation Unit of the Government Office for European Affairs is responsible for this task and has 38 staff. It commissions translations from freelance translators. A new office for legal revision with 8 staff has been set up in the Government Office in 2001.

As at September 2002, 7 300 pages of revised text and 30 200 of unrevised text were registered in the dedicated Commission database. According to Slovenian sources, all primary legislation has been translated, and altogether about 34 000 pages of the Official Journal. Only about 10 000 pages of translated texts have undergone legal revision. Slovenia has continued to make some progress on translation of the *acquis* into Slovene, however, the slow progress of the translation process is a source of concern. Slovenia should significantly step up its efforts in this area.

Due attention must also be given to the training of conference interpreters.

3.3. General evaluation¹⁸

Since the Opinion, Slovenia has made very good progress in transposition and implementation of the *acquis* as well as in developing the institutions needed for implementing and enforcing the *acquis*.

Over the past year, Slovenia has further advanced, especially in the areas of free movement of persons, fisheries, Economic and Monetary Union, employment and social policy, regional policy, environment and financial control. Limited further progress has been made in the area of consumers and health protection.

Overall, Slovenia has achieved a high degree of alignment with the *acquis* in most areas, and is well advanced concerning the administrative capacity needed to implement the *acquis*, although further efforts are still needed. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Slovenia is well advanced in legislative alignment concerning the key areas of the internal market and most of the institutions have been established and are functioning well. Concerning *free movement of goods*, Slovenia is well advanced in legislative alignment and in ensuring functioning of the institutions. However, some *acquis* still remains to be transposed, especially on foodstuffs and some other areas of sectoral legislation, as well as on public procurement. The new institutes for standardisation and certification function well and their administrative capacity should be further reinforced and market surveillance systems strengthened. Following the adoption of important legislation in the past year, the legislative framework for *free movement of persons* is almost complete. However, some fine tuning is needed on mutual recognition, and alignment on citizen's rights needs to be completed by accession. The Slovenian legislation in the area of *freedom to provide services* is largely aligned with the *acquis*, and should now be completed; administrative capacity should be enhanced further, including concerning supervision of financial services. The level of preparations for membership in the area of *free movement of capital* is advanced, and further progress was made in the past year through adoption of new legislation and through lifting of several restrictions on money transactions. Due attention should be given to the delay in removing restrictions on foreign direct investment concerning investment funds and management companies, and preparations for accession in the area of payments systems remain to be completed. The situation in the area of *company law* is good in Slovenia, however, further efforts should be made to complete the legislative alignment process and efforts to ensure enforcement of intellectual property rights should continue. Concerning *competition policy*, Slovenia's preparations are reasonably advanced and it should now focus on completing the legislative alignment process and on establishing a good track record on enforcement with a view to ensuring efficient competition in the Slovenian market.

Legislative alignment has continued in the *taxation* area and Slovenia's legislation is almost fully aligned with the *acquis*. Slovenia should now focus on completing alignment. Slovenia has reached a high level of alignment in the *customs* area and should now focus on removing remaining inconsistencies with the *acquis* and on further strengthening of the administration through the ongoing reform. IT systems should be

¹⁸ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

further developed in both areas so as to allow for exchange of computerised data between the EC and Slovenia.

Slovenia has continued to make steady progress in the *agriculture* area, especially on veterinary and phyto-sanitary issues, through adoption of new legislation, establishment of several new institutions and through accreditation of the SAPARD Agency. Good progress has been made in upgrading food establishments. Slovenia should now focus on further strengthening the administrative capacity, completion of the Common Agricultural Policy management mechanisms; and setting up of adequate phyto-sanitary and veterinary inspections, in particular at the borders, and ensuring their proper functioning.

Slovenia has made good progress in the *fisheries* sector, and the situation is in general satisfactory. Efforts in this sector should focus on adopting the outstanding legislation, and on further reinforcing capacity for implementation and enforcement.

Further progress has been made in the *transport* sector through the setting up of new institutions. The overall situation in this area is good, although some delays have occurred in the rail sector. Slovenia should now focus on completing legislative alignment and strengthening the administrative capacity. Preparations for membership in the *energy* sector have continued and are advanced. Administrative capacity needs to be strengthened further, in particular as regards the regulator and the nuclear safety authority. The latter body needs to be made *de iure* independent from the promotion of nuclear energy.

Slovenia has made very good progress since the last Regular Report in designating the structures responsible for implementing *regional policy* and preparations for implementation of structural and cohesion funds are well on track. These should be continued, including the technical preparation of projects eligible for Community funding. Legislative alignment has advanced considerably in the past year in the area of *employment and social affairs*, notably through the adoption of the Employment Relations Act. The overall situation in this area is good and efforts should now focus on strengthening the implementation capacity for the *acquis* on occupational health and safety, including the strengthening of labour inspectorates.

The level of alignment in the *environment* area is high following the adoption of important new legislation in the past year. Slovenia should now focus on completing transposition of horizontal legislation, transposition of the delayed Integrated Pollution Prevention and Control directive and to securing sufficient investments to ensure the implementation of the environment *acquis*. Although the level of alignment in the area of *consumers and health protection* is advanced, alignment still needs to be completed and administrative capacity improved.

Good progress was made in the past year in the *postal* sector through adoption of the Postal Act and preparations for accession are well on track. Attention should now be focussed on increasing competition in the *telecommunications* area. The level of preparedness in the *culture and audio-visual* sector is good, however, Slovenia should complete legislative alignment and strengthen the institutions.

Slovenia has continued to make good progress in preparing for accession in the area of *justice and home affairs*, especially by setting up new institutions. Legislative alignment is advanced but remains to be completed, especially on asylum and migration. The

institutions should be strengthened further and Slovenia should continue its efforts to upgrade capacity and infrastructure for border management in accordance with the Schengen Action Plan, especially at what will become the Union's external border.

Very good progress has been made since the last Regular Report on *financial control* and the preparations for membership are well advanced in this area. Slovenia should now focus on effective implementation and ensuring the planned strengthening of administrative capacity on public internal financial control.

Slovenia's administrative capacity for the implementation of the *acquis* has been enhanced further in the reporting period. Most of the institutions necessary for the implementation of the *acquis* are now in place and attention should be focussed on providing them with sufficient resources to carry out their work. Slovenia should continue its efforts to improve the administrative capacity, in particular in the areas of freedom to provide services, agriculture, fisheries, rail transport, energy, telecommunications, culture and audio-visual, environment, consumers and health protection, and justice and home affairs. Special attention should be given to the structures necessary to implement the *acquis* which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds.

In the accession negotiations 28 chapters have been provisionally closed. Slovenia is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to removing restrictions on foreign direct investment concerning investment funds and management companies, the establishment of the Fishing Vessel Register, creating the legislative basis for restructuring of the railways and transposition of the Integrated Pollution Prevention and Control directive. These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Slovenia has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Slovenia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Slovenia needs to continue its preparations in line with the commitments it has made in the accession negotiations.

C. Conclusion¹⁹

In its 1997 Opinion, the Commission concluded that Slovenia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. This has been confirmed over the past year. Slovenia continues to fulfil the Copenhagen political criteria.

Slovenia has made considerable progress on public administration reform by adopting the laws on civil servants, public agencies and state administration. With the adoption of these laws, the framework legislation for public administration reform is now in place. It is important that these laws are now fully implemented.

Reform of the judiciary has continued through legislative changes and the adoption of measures aimed at abolishing the backlog of pending court cases. Slovenia has recognised the need to improve the situation further.

Slovenia continues to respect human rights and freedoms.

The 1997 Opinion already acknowledged the substantial reform efforts undertaken by the Slovenian authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, economic performance has improved. Macroeconomic stability has been achieved, reforms have deepened while the Slovenian authorities' commitment to the economic requirements of EU accession has been sustained.

Hence, it is concluded that Slovenia is a functioning market economy. The continuation of its current reform path should enable Slovenia to cope with competitive pressure and market forces in the Union.

Improvements can be made on reducing the inflation rate by the further elimination of indexation schemes and by directing the macroeconomic policy mix more convincingly towards inflation reduction. The competitiveness of the economy would be supported by speeding up structural reforms, such as the final liquidation of the Slovene Development Corporation and further privatisation in the financial sector.

Since the Opinion, Slovenia has made very good progress in transposition and implementation of the *acquis* as well as in developing the institutions needed for implementing and enforcing the *acquis*.

Over the past year, Slovenia has further advanced, especially in the areas of free movement of persons, fisheries, Economic and Monetary Union, employment and social policy, regional policy, environment and financial control. Limited further progress has been made in the area of consumers and health protection.

Overall, Slovenia has achieved a high degree of alignment with the *acquis* in most areas, and is well advanced concerning the administrative capacity needed to implement the

¹⁹ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

acquis, although further efforts are still needed. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Slovenia is well advanced in legislative alignment concerning the key areas of the internal market and most of the institutions have been established and are functioning well. Concerning *free movement of goods*, Slovenia is well advanced in legislative alignment and in ensuring functioning of the institutions. However, some *acquis* still remains to be transposed, especially on foodstuffs and some other areas of sectoral legislation, as well as on public procurement. The new institutes for standardisation and certification function well and their administrative capacity should be further reinforced and market surveillance systems strengthened. Following the adoption of important legislation in the past year, the legislative framework for *free movement of persons* is almost complete. However, some fine tuning is needed on mutual recognition, and alignment on citizen's rights needs to be completed by accession. The Slovenian legislation in the area of *freedom to provide services* is largely aligned with the *acquis*, and should now be completed; administrative capacity should be enhanced further, including concerning supervision of financial services. The level of preparations for membership in the area of *free movement of capital* is advanced, and further progress was made in the past year through adoption of new legislation and through lifting of several restrictions on money transactions. Due attention should be given to the delay in removing restrictions on foreign direct investment concerning investment funds and management companies, and preparations for accession in the area of payments systems remain to be completed. The situation in the area of *company law* is good in Slovenia, however, further efforts should be made to complete the legislative alignment process and efforts to ensure enforcement of intellectual property rights should continue. Concerning *competition policy*, Slovenia's preparations are reasonably advanced and it should now focus on completing the legislative alignment process and on establishing a good track record on enforcement with a view to ensuring efficient competition in the Slovenian market.

Legislative alignment has continued in the *taxation* area and Slovenia's legislation is almost fully aligned with the *acquis*. Slovenia should now focus on completing alignment. Slovenia has reached a high level of alignment in the *customs* area and should now focus on removing remaining inconsistencies with the *acquis* and on further strengthening of the administration through the ongoing reform. IT systems should be further developed in both areas so as to allow for exchange of computerised data between the EC and Slovenia.

Slovenia has continued to make steady progress in the *agriculture* area, especially on veterinary and phyto-sanitary issues, through adoption of new legislation, establishment of several new institutions and through accreditation of the SAPARD Agency. Good progress has been made in upgrading food establishments. Slovenia should now focus on further strengthening the administrative capacity, completion of the Common Agricultural Policy management mechanisms; and setting up of adequate phyto-sanitary and veterinary inspections, in particular at the borders, and ensuring their proper functioning.

Slovenia has made good progress in the *fisheries* sector, and the situation is in general satisfactory. Efforts in this sector should focus on adopting the outstanding legislation, and on further reinforcing capacity for implementation and enforcement.

Further progress has been made in the *transport* sector through the setting up of new institutions. The overall situation in this area is good, although some delays have occurred in the rail sector. Slovenia should now focus on completing legislative alignment and strengthening the administrative capacity. Preparations for membership in the *energy* sector have continued and are advanced. Administrative capacity needs to be strengthened further, in particular as regards the regulator and the nuclear safety authority. The latter body needs to be made *de iure* independent from the promotion of nuclear energy.

Slovenia has made very good progress since the last Regular Report in designating the structures responsible for implementing *regional policy* and preparations for implementation of structural and cohesion funds are well on track. These should be continued, including the technical preparation of projects eligible for Community funding. Legislative alignment has advanced considerably in the past year in the area of *employment and social affairs*, notably through the adoption of the Employment Relations Act. The overall situation in this area is good and efforts should now focus on strengthening the implementation capacity for the *acquis* on occupational health and safety, including the strengthening of labour inspectorates.

The level of alignment in the *environment* area is high following the adoption of important new legislation in the past year. Slovenia should now focus on completing transposition of horizontal legislation, transposition of the delayed Integrated Pollution Prevention and Control directive and to securing sufficient investments to ensure the implementation of the environment *acquis*. Although the level of alignment in the area of *consumers and health protection* is advanced, alignment still needs to be completed and administrative capacity improved.

Good progress was made in the past year in the *postal* sector through adoption of the Postal Act and preparations for accession are well on track. Attention should now be focussed on increasing competition in the *telecommunications* area. The level of preparedness in the *culture and audio-visual* sector is good, however, Slovenia should complete legislative alignment and strengthen the institutions.

Slovenia has continued to make good progress in preparing for accession in the area of *justice and home affairs*, especially by setting up new institutions. Legislative alignment is advanced but remains to be completed, especially on asylum and migration. The institutions should be strengthened further and Slovenia should continue its efforts to upgrade capacity and infrastructure for border management in accordance with the Schengen Action Plan, especially at what will become the Union's external border.

Very good progress has been made since the last Regular Report on *financial control* and the preparations for membership are well advanced in this area. Slovenia should now focus on effective implementation and ensuring the planned strengthening of administrative capacity on public internal financial control.

Slovenia's administrative capacity for the implementation of the *acquis* has been enhanced further in the reporting period. Most of the institutions necessary for the implementation of the *acquis* are now in place and attention should be focussed on providing them with sufficient resources to carry out their work. Slovenia should continue its efforts to improve the administrative capacity, in particular in the areas of freedom to provide services, agriculture, fisheries, rail transport, energy,

telecommunications, culture and audio-visual, environment, consumers and health protection, and justice and home affairs. Special attention should be given to the structures necessary to implement the *acquis* which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds.

In the accession negotiations 28 chapters have been provisionally closed. Slovenia is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to removing restrictions on foreign direct investment concerning investment funds and management companies, the establishment of the Fishing Vessel Register, creating the legislative basis for restructuring of the railways and transposition of the Integrated Pollution Prevention and Control directive. These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Slovenia has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Slovenia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Slovenia needs to continue its preparations in line with the commitments it has made in the accession negotiations.

D. Accession Partnership and Action Plan for strengthening administrative and judicial capacity: Global assessment

Slovenia's progress and overall state of preparation in respect of the Copenhagen criteria has been examined and conclusions drawn above. The present section assesses the extent to which the priorities of the Accession Partnership have been met and the measures foreseen under the Action Plan implemented according to schedule. It should be noted that both the Accession Partnership and the Action Plan have a time perspective of two years covering 2002 and 2003, providing for another 15 months for priorities to be met. Furthermore, much has already been achieved based on previous Accession Partnerships. The present one focuses on remaining specific and well-circumscribed topics identified as requiring more work to prepare Slovenia for membership. Therefore the analysis below only focuses on these specific topics and does not give an overall picture of the state of preparation of Slovenia in each domain.

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 Regular Report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

The Accession Partnerships are revised on a regular basis, to take account of progress made, and to allow new priorities to be set. The Council adopted a revised Accession Partnership for Slovenia in January 2002, based on a proposal from the Commission.

The revised Accession Partnership has served as the point of departure for the Commission and Slovenia to develop jointly an Action Plan to strengthen Slovenia's administrative and judicial capacity.

The purpose of the Action Plan is to identify jointly the next steps required for Slovenia to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing Slovenia with targeted assistance in areas that are essential for the functioning of an enlarged Union.

Developing adequate administrative and judicial capacity for EU membership is a demanding and wide-ranging task, which requires detailed preparations in each and every domain covered by the Union's policies and legislation. In preparing individual Action Plans, the Commission has taken a comprehensive approach. All priorities from the revised Accession Partnerships which relate to the development of administrative and judicial capacity have been included in the Action Plans. Each of these priorities is treated separately in the Action Plans, and specific measures have been designed to address each of them.

In the following, progress in addressing each of these priorities is reported. For ease of reference and to avoid repetitions, wording from the *Accession Partnerships* is rendered in italics. As regards the measures foreseen by the Action Plan, implementation is checked against timetables and reported.

Political criteria

All the remaining *framework legislation for public administration reform*, identified as an urgent priority, has been adopted. Some measures have been introduced *to improve the functioning of the judiciary* and to reduce the backlogs of court cases, including amendments foreseen in the Action Plan to the Court Fees Act, the Execution of Judgements in Civil Matters and Insurance of Claims Act and the Judicial Service Act. The other legislation mentioned in the Action Plan remains to be adopted. Implementation of the Herkules project has continued and the analysis of causes of court backlogs has been prepared. However, despite these measures the backlogs have not diminished. Overall, the Accession Partnership priorities concerning the political criteria have been partially met. Implementation of the measures under the Action Plan is on track.

Economic criteria

Progress has been made in *enterprise restructuring*, notably through the termination of the activities of the Slovenia Development Corporation. Foreign investment has increased, however, further efforts are needed to increase investments by *improving the business environment*. *Restructuring, commercialisation and liberalisation of state-owned utilities* has progressed, especially in the textile, footwear and steel sectors. The *privatisation process* for the large state-owned banks has progressed, but there have been delays in the process, especially concerning one of the banks. The legal basis providing for the privatisation of the *insurance company* has been created, but the process has not started yet. No progress has been made in reducing the backlogs of the *land register*, which are still increasing despite the computerisation project, which has continued. Overall, the Accession Partnership priorities concerning the economic criteria have been partially met. Implementation of the measures under the Action Plan is on track.

Ability to assume the obligations of membership

Chapter 1: Free movement of goods

The newly-established *Standardisation Institute* has started to function and the planned increases of staff are being carried out. Slovenia has currently adopted 99.5 % of all CEN standards, 99% of all CENELEC standards and 91% of harmonised ETSI standards. Slovenia has progressed with *completing the adoption of traditional sectoral legislation and New Approach directives*, but further efforts are still needed. As regards administrative capacity, efforts are ongoing to reinforce the conformity assessment bodies and laboratories in the field of the New and Global Approach, as well as to ensure *proper co-ordination and effectiveness of national market surveillance bodies*, and these should be continued. Establishment of the Office for Foodstuffs and Nutrition has been delayed and Slovenia must continue to *prepare the relevant administration and food operators for the implementation of Community principles for food safety*. Slovenia has set up an inter-ministerial group and an internal screening process with a view to *ensuring compliance with Articles 28, 29 and 30 of the EC Treaty*; recruitment of staff has progressed as foreseen in the Action Plan. *Strengthening of the Public Procurement Office and of the State Control Commission* has progressed, including by the staff increases foreseen in the Action Plan, and should continue. Overall, the Accession

Partnership priorities in the area of free movement of goods have been partially met. Implementation of the measures under the Action Plan is generally on track.

Chapter 2: Free movement of persons

Slovenia is very close to full *alignment for mutual recognition of professional qualifications and diplomas* and of *professional qualifications obtained before harmonisation* since the adoption of new legislation in February 2002. However, secondary legislation is still needed. Efforts to develop the necessary *administrative structures* through training and reinforcement of staff are ongoing and should continue. The institutional framework has been clarified as set out in the Action Plan. The *administrative structures for co-ordination of social security* continue to be strengthened. The Accession Partnership priorities in this area have been largely met. Implementation of the measures under the Action Plan is on track.

Chapter 3: Freedom to provide services

Slovenia has made progress by adopting the Action Plan for Improved Harmonisation with the core principles of effective banking supervision on the basis of EU recommendations. The Insurance Supervision Agency has increased its staff to 22 persons and training is provided for its employees. The reinforcement of the staff of the Securities Market Agency (32 employees) and of the Banking Supervision Department within the Bank of Slovenia (45 employees) has progressed slowly. Further reinforcement of *the supervision of financial services* is needed, in particular through increases of staff as foreseen in the Action Plan. Slovenia has also made legislative progress in the area of *investment services* with the adoption of a number of decisions issued by the Securities Market Agency. Still, further efforts are needed to complete alignment of legislation on investment services. The Accession Partnership priorities in this area have been partially met. Implementation of the measures under the Action Plan is on track.

Chapter 4: Free movement of capital

Slovenia has continued to *abolish remaining restrictions on short-term transactions in order to complete liberalisation of capital flows*. Only a few minor restrictions still persist. Major parts of the *second Directive against Money Laundering* are already in place and Slovenia has ensured compliance with the *recommendations of the Financial Action Task Force*. The Accession Partnership priorities in this field have been met to a large extent.

Chapter 5: Company law

In the field of *intellectual and industrial property rights*, Slovenia already provides for a relatively high level of industrial property protection. *Border controls* are being strengthened and some *training* has been provided, including of customs staff to detect pirated goods at border crossings. *Co-ordination* between enforcement bodies should be strengthened further by formalising the structure of the informal co-ordination body. The Accession Partnership priorities in this area have been partially met. Implementation of the measures under the Action Plan is on track.

Chapter 6: Competition policy

The *Slovenian Development Corporation* (SDC) has ceased to provide non-transparent state aid. The legislation concerning *economic zones* has been modified to bring the provisions on tax exemptions into conformity with the State aid principles of the *acquis*. The *administrative capacity* of the Competition Protection Office has been enhanced through training and by increasing the staff to 12, but further efforts should be made to ensure sufficient resources for the Office. Slovenia should intensify the *training of the judiciary in all fields of competition policy*. The Accession Partnership priorities in this area have been partially met. Implementation of the measures under the Action Plan is on track.

Chapter 7: Agriculture

As regards the implementation of *Community-funded rural development programmes*, the Agency for Agricultural Markets and Rural Development (AAMRD) was accredited as the SAPARD Agency. The Rural Development Department of the AAMRD is currently employing 21 staff, out of a total of 29 envisaged by the end of 2002. Although efforts are continuing to upgrade the capacity of the AAMRD to implement the different market organisations, and training activities are ongoing, the overall capacity still needs to be substantially improved. Good progress has been made as regards the *upgrading of the capacity of the agricultural administration* for the implementation of the Common Agricultural Policy. The Ministry of Agriculture, Forestry and Food has continued to upgrade its administrative and technical capacity by recruitment of new staff. The relevant departments in the AAMRD to implement CAP have already been established and the relevant administrative capacity is being set up. Slovenia has already introduced similar management procedures and mechanisms to those of the common market organisations, such as direct payments. The setting up of the *Integrated Administration and Control System (IACS) for handling CAP expenditure* is already advanced. The FADN Committee has been established. Digitalisation of the land cadastre is well on track, as envisaged in the Action Plan. The preparations for making the register of agricultural holdings fully operational by end December 2002, as foreseen in the Action Plan, are progressing well and by January 2002, 81 848 out of a total of 86 467 holdings had been registered. Preparations for completing the Central Register of Bovine Animals by end of 2002 are progressing well and 90% of the total number of bovine animals had been registered in the Central Register of Bovine Animals by January 2002. All live animals entered in the database have been issued with passports. *As regards alignment with the veterinary and phytosanitary acquis*, good progress has been made and the framework legislation has been adopted. The Veterinary Administration of the Republic of Slovenia (VARs) has accelerated its reforms and has a staff of 307, of whom 281 are veterinarians. This staffing seems to be adequate, however, the number of employees for administrative support activities is low. Most of the *TSE acquis* has been transposed and the number of animals tested for BSE is broadly equivalent to that in the EU. In the *phytosanitary sector*, the setting up of the PHYTO Register and plant passports started at the end of 2001. However, progress is slow as regards the establishment of the border inspection posts at the future external borders with Croatia for veterinary and phytosanitary controls. In particular, the establishment of the border inspection post in Obrezje, which was planned to be in place by the end of 2002, is being delayed. A national plan for *upgrading food establishments* is being implemented. Therefore, the Accession Partnership priorities in the field of agriculture have been largely met. Implementation of the measures under the Action Plan is on track.

Chapter 9: Transport policy

Concerning land transport, Slovenia has made progress in *legislative alignment on railway transport*, but needs to make further efforts to complete the process with a view to the *implementation of the revised railways acquis*. Reinforcement of the new role and structures of the Slovenian Railway Organisation is under way; however, the law regulating the restructuring of the Slovenian Railways has not been adopted yet. The Rail Agency foreseen in the Action Plan has not been set up yet. As regards the area of road transport, the procedure for the appointment of legal entities for the verification of recording equipment has started, although administrative capacity needs to be strengthened further. As regards *air transport*, the current *administrative capacity* appears satisfactory, as the Civil Aviation Authority functions effectively. The new independent investigative authority for air accidents has been set up. Overall, the Accession Partnership priorities in this area have been met to a limited extent. Implementation of the measures under the Action Plan is delayed.

Chapter 10: Taxation

The *legislative alignment with particular attention to the VAT) and excise legislation* has continued. Only some minor discrepancies in the legislation still exist, and intra-community trade provisions still need to be transposed. Measures have been adopted and an assessment is being carried out by a Commission of Legislation to ensure that *existing and future legislation complies with the principles of the Code of Conduct for Business Taxation*. Strengthening of the *administrative capacity and control procedures* and improvement of *administrative cooperation and mutual assistance in order to be able to implement the acquis* has continued. The consolidation of tasks within the regional tax offices, as outlined in the Action Plan, is taking place on schedule. Slovenia continues to implement the urgent priority of developing *IT systems so as to allow for the exchange of electronic data with the Community and its Member States*. The measures outlined in the Action Plan are being implemented, including the Strategic Plan of the Tax Administration for the period 2001-2004 with a special emphasis on IT strategy. The feasibility study on the Value Added Tax Information Exchange System (VIES) was carried out in January 2002. The VIES central project has been initiated and intensive activities with a view to making the project operational are under way. The Holding and Movements Directive has been partially transposed and preparations are ongoing for completing transposition. The Accession Partnership priorities in the area of taxation have been partially met. Implementation of the measures under the Action Plan is on track.

Chapter 13: Social policy and employment

Social partners' capacity-building efforts are continuing. Social partners are being consulted in the drafting of legislation as well as in the elaboration and implementation of issues related to the EU employment and social policy, such as the Joint Inclusion Memorandum, the Joint Assessment Paper and ESF programming. Slovenia has nearly completed the *alignment of legislation* in the field of social policy and employment, and in particular concerning labour law, with the adoption of the new Employment Relations Act and the Parental Protection and Family Benefits Act. Slovenia has further aligned its legislation in the area of health and safety at work, as well as public health. Slovenia still needs to designate the Equality Body in the field of anti-discrimination. The strengthening of the administrative capacity of the relevant institutions is ongoing, but needs to be further reinforced. The Labour Inspectorate has been reinforced in terms of

staff. The implementation of the *public health acquis* is proceeding smoothly. However, laboratory facilities need to be strengthened further. Progress has continued as regards the *surveillance and control of communicable diseases*. Slovenia has initiated the drafting of a Joint Memorandum on *Social Inclusion* in co-operation with the Commission. Therefore, the Accession Partnership priorities in the field of social policy and employment have been largely met. Implementation of the measures under the Action Plan is on track.

Chapter 14: Energy

Slovenia has accepted the *recommendations* of the *Council Report on Nuclear Safety in the Context of Enlargement* and is currently implementing them. Safety improvement programmes are advanced, as is the completion of the activities related to the seismic characterisation of the Krško site. The duties and responsibilities of the regulatory body on nuclear energy have been defined in the recently adopted Nuclear Safety Act, but the regulatory body's *de iure* independence from the promotion of nuclear energy still needs to be ensured. Actual staffing needs to be further increased in accordance with the Action Plan. Slovenia continues to prepare for *the internal energy market*. Preparations are ongoing for full opening in January 2003 of the electricity market, and of the natural gas market for consumers consuming at least 25m³ per year. The staff of the Energy Agency has been increased to 18. With regard to security of supply of *oil stocks*, the constitution of 90 days' oil stocks has continued in accordance with the government plan, and had reached the level of 44 days by the end of 2001. Slovenia has continued to improve the country's *energy efficiency* by adopting a number of executive acts on energy efficiency labelling and standards. Overall, these ongoing measures have led to a decrease of almost 30% in the country's energy consumption over the past 5 years. The Accession Partnership priorities in the area of energy have been largely met. Implementation of the measures under the Action Plan is on track.

Chapters 19 & 20: Telecommunications and Information Technologies / Culture and Audio-visual Policy

Slovenia has continued to *consolidate the recently established Telecommunications and Broadcasting Agency*, highlighted as a particularly urgent action in the Accession Partnership. However, the Agency's administrative capacity in terms of staffing, own source of finance and own employment responsibility is still weak. The implementation of the measures outlined in the Action Plan continues: the Agency for Telecommunication and Broadcasting was transformed into an Agency for Telecommunication, Broadcasting and Postal Agency in June 2002. The number of staff has been increased from 41 to 46. However, progress appears to be slow with respect to the staff increases foreseen in the Action Plan. The Accession Partnership priorities in this area have been met only to a limited extent. Implementation of the measures under the Action Plan is progressing slowly.

Chapter 21: Regional policy and co-ordination of structural instruments

As regards the urgent priority concerning *territorial organisation*, Slovenia has agreed to implement one Single Programming Document covering the whole territory of Slovenia for the programming period up to 2006. Slovenia has designated the main bodies, which are responsible for the implementation of the *Structural Funds and the Cohesion Fund*. The decisions to determine the final implementation structures are being elaborated in the

context of the draft Single Programming Document, which should be submitted to the Commission in March 2003. The *administrative capacity of the institutions* responsible for the implementation of the Structural and Cohesion Funds, in particular the future *Managing and Paying Authorities*, is being strengthened. Training activities are ongoing and additional staff is being recruited. The staffing of the National Agency for Regional Development (NARD) within the Ministry of Economy is being increased. However, further efforts are needed to put in place adequate administrative and technical capacity in all the relevant institutions. The *National Development Plan* has been submitted. On the basis of that plan, Slovenia has already started the preparation for the draft Single Programming Document, as foreseen in the Action Plan. The preparations for the setting up of the *monitoring and evaluation systems* have started. The NARD has launched a project on monitoring regional development with the aim to establish the methodology for setting up a system of monitoring indicators. Slovenia is continuing to align itself with the specific *financial management and control provisions*. The Budgetary Supervisory Service has increased its staff as foreseen in the Action Plan. Slovenia is making efforts concerning the *development of the technical project preparations for Structural and Cohesion Funds*. Overall, the Accession Partnership priorities in the area of Regional Policy have been partially met. Implementation of the measures under the Action Plan is on track.

Chapter 22: Environment

Slovenia has advanced in the *transposition of the acquis* in this area through the recent adoption of the laws on Water, GMOs and on Radiation Protection and Nuclear Safety. Particular attention should now be paid to the transposition of the Integrated Pollution Prevention and Control Directive and the completion of transposition of the nature protection and the remaining air quality *acquis*. Slovenia's *administrative capacity* has been strengthened considerably at the central level, and attention should now be focussed on the local level. The Commission for Biotechnology has been established and an appropriate information system on GMOs set up. In the field of chemicals, the information system for the collection of data on chemicals and their quantities has been set up and is being applied. Preparations for setting up *the integrated environmental protection information system the commission for awarding the eco-label* and for establishing *the body for reviewing environmental protection reports* are ongoing. Slovenia has made progress in the *integration of environmental protection requirements* into the *definition and implementation of all other sectoral policies with a view to promoting sustainable development*. Overall, the Accession Partnership priorities in the area of the environment have been partially met. Implementation of the Action Plan is on track.

Chapter 23: Consumers and health protection

Slovenia has progressed in the transposition of the *acquis* and in setting up adequate administrative capacity. However, further efforts are needed to *strengthen the market surveillance and enforcement bodies*. As regards the measures outlined in the Action Plan, training is ongoing in the Office for Consumer Protection and is being coordinated with the Market Inspectorate and the Health Inspectorate. Overall, the Accession Partnership priority in this area has been partially met. Implementation of the measures under the Action Plan is on track.

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

Implementation of the Schengen Action Plan has continued, including preparation for participation in the Schengen information system. The directorate for border control has been set up within the police as foreseen. However, there are delays in the recruitment schedule for *border* guards compared with the timetable adopted in the Schengen Action Plan. Concerning the urgent priority on asylum, the backlog of *asylum applications* has been eliminated, however, the secondary legislation on *asylum* still remains to be adopted. The *Asylum Home and Centre for Foreigners* have been separated and building of new premises is progressing. Progress has been made in the *fight against organised crime*, especially by developing international co-operation in this area; co-ordination among law enforcement bodies should be strengthened further. Also, adoption of the National Drugs Action plan has been delayed. *Illegal immigration* into Slovenia has diminished, but alignment of *migration legislation* remains to be completed. Preparation for implementation of *Community instruments in the area of judicial co-operation in civil matters* has continued. Overall, the Accession Partnership priorities in the area of justice and home affairs have been partially met. Implementation of the measures under the Action Plan has started.

Chapter 25: Customs union

The *implementation of the IT strategy of the Slovenian customs administration* has continued, including the *development of IT systems allowing for the exchange of data between the Community and Slovenia*. The Plan for Restructuring of the Customs Administration has been prepared but not yet submitted to the Government for adoption. The urgent Accession Partnership priority in this field has been met. Implementation of the measures under the Action Plan is on track.

Chapter 26: External relations

Slovenia is taking measures to ensure that any *international treaties or agreements incompatible with the acquis are renegotiated or terminated upon accession*. The Accession Partnership priority in this area has been met.

Chapter 28: Financial control

A *contact point* for OLAF was designated in July 2002 and cooperation with OLAF is ongoing. Slovenia has continued to develop the *coordinating role of the Ministry of Finance in the fields of Financial Management and Control and of Decentralised Internal Audit systems by ensuring adequate staffing level*. Since the beginning of 2002, the staff within the Budget Supervisory Service has been increased by 4 people up to 18 people. The Public Finance Act adopted in March 2002, as foreseen in the Action Plan, strengthens the coordinating role of the Ministry of Finance in Financial Management and *further develops the Public Internal Financial Control concept*. As foreseen in the Action Plan, the Public Internal Financial Control Paper, providing for an analysis of the present weaknesses in the Slovene public control systems and a basis for further legislation, was adopted in July 2002. *Internal audit units* have been established in *all line ministries*, as set out in the Accession Partnership and the Action Plan. Slovenia has continued its efforts *to ensure the correct use, control, monitoring and evaluation of EC pre-accession funding*. The preparation for the Extended Decentralised Implementation System (EDIS) has continued. The Accession Partnership priorities in this area have been largely met. Implementation of the measures under the Action Plan is on track.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
15 September 2002***

| <i>Adherence to following conventions and protocols</i> | BG | CY | CZ | EE | HU | LV | LT | MT | PL | RO | SK | SI | TK |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| ECHR (European Convention on Human Rights) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Protocol 1 (right of property) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Protocol 4 (freedom movement et al.) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| Protocol 6 (death penalty) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| Protocol 7 (ne bis in idem) | X | X | X | X | X | X | X | O | O | X | X | X | O |
| European Convention for the Prevention of Torture | X | X | X | X | X | X | X | X | X | X | X | X | X |
| European Social Charter | O | X | X | O | X | X | O | X | X | O | X | O | X |
| Revised European Social Charter | X | X | O | X | O | O | X | O | O | X | O | X | O |
| Framework Convention for National Minorities | X | X | X | X | X | O | X | X | X | X | X | X | O |
| ICCPR (International Covenant on Civil and Political Rights) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| Optional Protocol to the ICCPR (right of individual communication) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| Second Optional Protocol to ICCPR (death penalty) | X | X | O | O | X | O | X | X | O | X | X | X | O |
| ICESCR (International Covenant on Economic, Social and Cultural rights) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| CAT (Convention against Torture) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| CERD (Convention on the Elimination of All Forms of Racial Discrimination) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| CEDAW (Convention on the Elimination of All Forms of Discrimination against Women) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Optional Protocol to the CEDAW | O | X | X | O | X | O | O | O | O | O | X | O | O |
| CRC (Convention on the Rights of the Child) | X | X | X | X | X | X | X | X | X | X | X | X | X |

X = Convention ratified

O = Convention **NOT** ratified

BG=Bulgaria; CY=Cyprus; CZ=Czech Republic; EE=Estonia; HU=Hungary; LV=Latvia; LT=Lithuania; MT=Malta; PL=Poland; RO=Romania; SK= Slovak Republic; SV=Slovenia; T=Turkey

Statistical data

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|--|--------|--------|--------|--------|
| Basic data | in 1000 | | | | |
| Population (as of 30th June) | 1,987 | 1,983 | 1,986 | 1,990 | 1,992 |
| | in km2 | | | | |
| Total area | 20,273 | 20,273 | 20,273 | 20,273 | 20,273 |
| National accounts | 1000 Mio Tolar | | | | |
| Gross domestic product at current prices | 2,907 | 3,254 | 3,648 | 4,036 | 4,566 |
| | 1000 Mio ECU/euro | | | | |
| Gross domestic product at current prices | 16.1 | 17.5 | 18.8 | 19.5 | 20.9 |
| | ECU/euro | | | | |
| Gross domestic product per capita a) at current prices | 8,100 | 8,800 | 9,500 | 9,800 | 10,500 |
| | % change over the previous year | | | | |
| Gross domestic product at constant prices (nat. currency) | 4.6 | 3.8 | 5.2 | 4.6 | 3.0 |
| Employment growth | -0.5 | 0.0 | 1.2 | 1.1 | 0.6 |
| Labour productivity growth | 5.1 | 3.8 | 3.9 | 3.5 | 2.3 |
| | in Purchasing Power Standards | | | | |
| Gross domestic product per capita a) at current prices | 12,800 | 13,500 | 14,500 | 15,300 | 16,000 |
| Structure of production | % of Gross Value Added b) | | | | |
| - Agriculture | 4.2 | 4.1 | 3.6 | 3.3 | 3.1 |
| - Industry (excluding construction) | 31.8 | 32.0 | 31.2 | 31.4 | 31.0 |
| - Construction | 5.6 | 5.6 | 6.2 | 6.0 | 5.9 |
| - Services | 58.4 | 58.3 | 59.0 | 59.3 | 60.1 |
| Structure of expenditure | as % of Gross Domestic Product | | | | |
| - Final consumption expenditure | 76.8 | 75.9 | 76.0 | 75.8 | 74.9 |
| - household and NPISH | 56.4 | 55.7 | 55.8 | 54.9 | 53.6 |
| - general government | 20.4 | 20.3 | 20.2 | 20.8 | 21.3 |
| - Gross fixed capital formation | 23.4 | 24.6 | 27.4 | 26.7 | 24.9 |
| - Stock variation c) | 0.7 | 1.0 | 1.1 | 1.1 | 0.5 |
| - Exports of goods and services | 57.4 | 56.6 | 52.5 | 59.1 | 60.1 |
| - Imports of goods and services | 58.3 | 58.2 | 56.9 | 62.7 | 60.5 |
| Inflation rate | % change over the previous year | | | | |
| Consumer price index | 8.3 | 7.9 | 6.1 | 8.9 | 8.6 |
| Balance of payments | Mio ECU/euro | | | | |
| -Current account | 10 | -131 | -734 | -662 | -75h |
| -Trade balance | -685 | -704 | -1,168 | -1,233 | : |
| <i>Exports of goods</i> | 7,414 | 8,109 | 8,091 | 9,536 | : |
| <i>Imports of goods</i> | 8,098 | 8,813 | 9,259 | 10,770 | : |
| -Net services | 556 | 439 | 342 | 473 | : |
| -Net income | 35 | 25 | -23 | -27 | : |
| -Net current transfers | 104 | 109 | 115 | 125 | : |
| - <i>of which</i> : government transfers | -58 | -75 | -79 | -66 | : |
| - FDI (net) inflows | 331 | 221 | 170 | 190 | 390p |
| Public finance | in % of Gross Domestic Product | | | | |
| General government deficit/surplus | -1.2 | -2.3 | -2.2 | -3.2 | -2.5p |
| General government debt | : | 25.1 | 26.4 | 27.6 | 27.5p |

| Financial indicators | in % of Gross Domestic Product | | | | |
|--|---------------------------------------|-------|-------|-------|-------|
| Gross foreign debt of the whole economy g) | 17.8 | 20.0 | 23.2 | 27.0 | : |
| | as % of exports | | | | |
| Gross foreign debt of the whole economy g) | 30.9 | 35.4 | 44.2 | 45.7 | : |
| Monetary aggregates | 1000 Mio ECU /euro | | | | |
| - M1 | 1.4 | 1.8 | 2.0 | 2.0 | 2.3 |
| - M2 | 5.4 | 6.7 | 7.1 | 7.2 | 8.9 |
| - M3 | 7.6 | 8.9 | 9.6 | 10.3 | 13.1 |
| Total credit | 4.6 | 5.9 | 7.0 | 7.7 | 8.8 |
| Average short-term interest rates | % per annum | | | | |
| - Day-to-day money rate h) | 9.6 | 7.4 | 6.8 | 6.8 | 6.8E |
| - Lending rate | 21.3 | 17.3 | 14.2 | 17.7 | 17.1 |
| - Deposit rate | 12.7 | 10.4 | 7.1 | 9.8 | 10.2 |
| ECU/EUR exchange rates | (1ECU/euro=..Tolar) | | | | |
| - Average of period | 181.0 | 186.0 | 194.5 | 206.6 | 218.0 |
| - End of period | 186.8 | 188.8 | 198.9 | 213.5 | 218.8 |
| | 1995=100 | | | | |
| - Effective exchange rate index | 84.8 | 82.5 | 78.0 | 71.5 | 67.2 |
| Reserve assets | Mio ECU/euro | | | | |
| - Reserve assets (including gold) | 3,002 | 3,119 | 3,154 | 3,435 | 4,989 |
| - Reserve assets (excluding gold) | 3,002 | 3,119 | 3,154 | 3,435 | 4,913 |

| External trade d) | Mio ECU/euro | | | | |
|--------------------------|--------------------------|-------|--------|--------|--------|
| Trade balance | -879 | -946 | -1,446 | -1,492 | -998 |
| Exports | 7,380 | 8,073 | 8,032 | 9,495 | 10,347 |
| Imports | 8,259 | 9,019 | 9,478 | 10,987 | 11,344 |
| | previous year=100 | | | | |
| Terms of trade e) | 99.2 | 102.6 | 99.6 | 95.3 | 100.9 |
| | as % of total | | | | |
| Exports with EU-15 | 63.6 | 65.5 | 66.0 | 63.8 | 62.2 |
| Imports with EU-15 | 67.4 | 69.4 | 68.9 | 67.8 | 67.7 |

| Demography | per 1000 of population | | | | |
|--|-------------------------------|------|------|------|------|
| Natural growth rate | -0.4 | -0.6 | -0.7 | -0.2 | -0.5 |
| Net migration rate (including corrections) | 1.2 | -1.1 | 1.2 | 1.3 | 1.5 |
| | per 1000 live-births | | | | |
| Infant mortality rate | 5.2 | 5.2 | 4.5 | 4.9 | 4.3 |
| Life expectancy : | at birth | | | | |
| Males: | 71 | 71.1 | 71.4 | 71.9 | 72.1 |
| Females: | 78.6 | 78.7 | 78.8 | 79.1 | 79.6 |

| Labour market (Labour Force Survey) | % of population | | | | |
|--|-------------------------------|------|------|------|------|
| Economic activity rate (15 - 64) | 67.4 | 68.8 | 67.6 | 67.4 | 67.5 |
| Employment rate (15-64), total | 62.8 | 63.5 | 62.5 | 62.7 | 63.6 |
| Employment rate (15-64), male | 67.1 | 67.5 | 66.8 | 66.7 | 68.5 |
| Employment rate (15-64), female | 58.4 | 59.5 | 58.1 | 58.5 | 58.6 |
| Average employment by NACE branches | in % of total | | | | |
| - Agriculture and forestry | 12.1 | 12.1 | 10.8 | 9.6 | 9.9 |
| - Industry (excluding construction) | 34.4 | 33.9 | 32.7 | 32.3 | 32.5 |
| - Construction | 6.1 | 5.7 | 5.1 | 5.4 | 6.1 |
| - Services | 47.4 | 48.4 | 51.4 | 52.7 | 51.4 |
| | % of labour force | | | | |
| Unemployment rate, total | 6.6 | 7.4 | 7.3 | 6.9 | 5.7 |
| Unemployment rate, males | 6.4 | 7.3 | 7.2 | 6.8 | 5.4 |
| Unemployment rate, females | 7.0 | 7.5 | 7.5 | 7.1 | 6.0 |
| Unemployment rate of persons < 25 years | 16.3 | 17.6 | 18.5 | 16.4 | 15.7 |
| | as % of all unemployed | | | | |
| Long-term unemployment share | 51.9 | 45.4 | 41.8 | 62.7 | 63.3 |

| Infrastructure | in km per 1000 km2 | | | | |
|-----------------------|---------------------------|-----|-----|-----|-----|
| Railway network | 59 | 59 | 59 | 59 | 61 |
| | km | | | | |
| Length of motorways | 330 | 369 | 399 | 427 | 436 |

| Industry and agriculture | previous year = 100 | | | | |
|--|----------------------------|-------|------|--------|-------|
| Industrial production volume indices | 101.0 | 103.7 | 99.5 | 106.2 | 102.9 |
| Gross agricultural production volume indices | 99.0 | 102.2 | 98.7 | 102.4E | : |

| Standard of living | per 1000 inhabitants | | | | |
|---|-----------------------------|-------|-------|-------|-------|
| Number of cars | 385.0 | 402.0 | 418.0 | 426.0 | 433.0 |
| Main telephone lines | 357.4 | 389.0 | 396.0 | 406.0 | 474.5 |
| Number of subscriptions to cellular mobile services | 46.4 | 98.6 | 326.5 | 571.6 | 758.0 |
| Number of Internet subscriptions f) | 90.0 | 110.0 | 140.0 | 190.0 | 230.0 |

p=provisional figures

E=estimate

- a) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.
- b) Including FISIM.
- c) These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.
- d) Annual data for 1997 and 1998 sent to Eurostat were in USD. As from 1999 monthly data sent to Eurostat are already recalculated to EUR from the national currency, using the monthly average exchange rate of the Bank of Slovenia.
- e) The terms of trade are calculated from data in USD.
- f) Active Internet users who use the Internet at least once a month.
- g) Series break after 1997.
- h) Website of the National Bank

Methodological Notes

Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1995 (rates from 1996).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series for Slovenia are presently available from 1999 only; the 1996-98 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified to until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

External trade

Imports and exports (current prices). The data is based upon the special trade system (relaxed definition) as defined by UN Statistical Office IMTSCD. The statistical value of the goods is based on the customs value, i.e. on the transaction value of goods. The invoice value is recalculated at the Slovenian border by adding or subtracting a part or all of the costs of transport, loading, unloading and insurance, depending on the terms of delivery set down in the contract. The statistical value of exported goods is thus FOB-type valuation and the statistical value of imported goods is CIF-type valuation. Thus defined statistical values of exported and imported goods are recalculated to ECU/euro on the basis of monthly average exchange rate corresponding to the month of observation. The source of the exchange rate information is the Bank of Slovenia.

When the new customs legislation came into force at the beginning of 1996 (i.e. new Customs Law, Single Administrative Document and Combined Nomenclature) the methodology and electronic data processing of external trade statistics had to be adjusted. On product level comparability of data before and after 1996 is assured at the HS-6 products code.

Terms of trade. The terms of trade are the ratio of the price index for exports to the price index for imports. The indices are calculated by the "unit value" method (Fisher index) from US dollar values of imports and exports of goods. Transactions related to processing have been included since 2000.

Imports and exports with EU-15. Data declared by the Republic of Slovenia.

Demography

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is: population (X+1) - population (X) - Deaths (X) + Births (X). This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). In this case figures are more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

Labour Force

The European Labour Force Survey is conducted in spring each year in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998. A detailed description of the sampling methods, the adjustment procedures, the definitions and the common Community coding currently used in the labour force survey is presented in the publications 'Labour Force Survey – Methods and definitions, 1998' and 'Labour Force Survey in central and east European countries – Methods and definitions, 2000'.

All definitions apply to persons aged 15 years and over, living in private households. The concepts and definitions used in the survey follow the guidelines of the International Labour Organisation. Persons carrying out obligatory military service are not included.

Persons in employment were those who during the reference week did any work for pay or profit for at least one hour, or were not working but had jobs from which they were temporarily absent. Family workers are included.

As from 2001 (Commission Regulation (EC) No 1897/2000 of 7 September 2000), unemployed persons comprise persons aged 15 to 74 who were:

(a) without work during the reference week, i.e. neither had a job nor were at work (for one hour or more) in paid employment or self-employment;

(b) currently available for work, i.e. were available for paid employment or self-employment before the end of the two weeks following the reference week;

(c) actively seeking work, i.e. had taken specific steps in the four weeks period ending with the reference week to seek paid employment or self-employment or who found a job to start later, i.e. within a period of at most three months.

Comparability with results prior to 2001: unemployment results used to refer to persons aged 15 and more. Persons who found a job to start later used to be considered as unemployed with the unique condition to have no job in the reference week.

Duration of unemployment is defined as:

(a) the duration of search for a job, or

(b) the length of the period since the last job was held (if this period is shorter than the duration of search for a job).

The active population is defined as the sum of persons in employment and unemployed persons.

Inactive persons are those who are not classified as persons in employment nor as unemployed persons.

Employment rates represent employed persons aged 15-64 as a percentage of the same age population.

Unemployment rates represent unemployed persons as a percentage of the active population aged 15 years and more.

Economic activity rates represent the active population aged 15-64 as a percentage of the population of the same age.

Infrastructure

Railway network. All railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural

undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway. Road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

(a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;

(b) does not cross at level with any road, railway or tramway track, or footpath;

(c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

Industry and agriculture

Industrial production volume indices. Index of industrial production covers enterprises with 10 or more employees, except enterprises with activity of collection, purification and distribution of water.

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.

Standard of living

Number of cars. Passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Telephone subscribers. Mobile phone subscribers are not included.

Sources

Total area, demography, external trade, labour market, infrastructure, industry and agriculture, standard of living (except Internet connections): National sources.

National accounts, inflation rate, balance of payment, public finance, finance: Eurostat.