

**COMPOSITE PAPER**

**Reports on progress towards accession  
by each of the candidate countries**

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## 1. INTRODUCTION

1. The European Council meeting in Luxembourg in 1997 invited the Commission to draw up regular reports on the progress made towards accession by each of the candidate countries:

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

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

The European Council meeting in Cardiff asked that the reports for the end of 1998 should also cover Cyprus.

As far as Turkey is concerned, the Cardiff European Council has asked for a report “based on Article 28 of the Association Agreement and on the conclusions of the European Council in Luxembourg”.

Following the method used for the Opinions in Agenda 2000 the Commission has prepared a “composite paper” for the Council which contains a synthesis of the analysis in each of the regular reports as well as a series of recommendations. This document also sets out the state of play on the negotiations and the reinforcement of the pre-accession strategy.

2. In compiling the regular reports for the candidate countries in central and eastern Europe the Commission set out to analyse whether, in the light of the Copenhagen criteria, reforms which were announced or indicated have in fact been carried out since July 1997. As far as these reforms are concerned, and in particular those needed for the transposition of the *acquis* the Commission has highlighted measures which have been adopted rather than those which are being prepared or are in the course of adoption. This method is the only one which allows for comparison and measurement, on a objective basis, of the progress really achieved on the way to accession.

In the regular reports the Commission has also analysed progress in the capacity of each candidate to implement the *acquis*. As requested by the European Council in Madrid the Commission has continued to highlight steps taken to adapt administrative structures as soon as possible to the requirements of the *acquis*.

It should be noted that an essential element in the preparation of the candidate countries for accession is the maintenance or acceleration of rhythm of reforms necessary to align them with their obligations as future Member States as quickly as possible. In this context the Commission recalls the analysis set out in Agenda 2000. There is still a lot of work to be done by the candidate countries on the way to accession. The Commission continues to believe that all of the candidate countries, including those who will be best able to take on the obligations of membership in the medium term, will only be able to do it "on condition that they pursue their preparatory efforts with determination".

The assessment of real progress since the publication of the Opinion is based on several sources of information. First of all it is based on information provided by the candidate countries in order to update the Opinions. The Commission has also used information provided in meetings held under the auspices of the Europe Agreements and from the screening of the *acquis communautaire*. It has also compared information from these sources with that contained in the national programmes for the adoption of the *acquis*. As for the Opinions the Commission has also drawn on the reports of the European Parliament, evaluations from the Member States, the work of international organisations, in particular the Council of Europe and the OSCE, and international financial institutions as well as non-governmental organisations.

The European Council in Cardiff welcomed the Commission's intention to submit reports on "each candidate's progress towards accession". Therefore the Commission has also prepared a report on Cyprus. In this report the Commission has updated the 1993 Opinion, in particular on the basis of the results of the screening and of replies to questionnaires. However, as in 1993, the Commission only has partial information on the situation in the north of the island.

The report on Turkey goes beyond updating the 1989 Opinion insofar as the European Council of Cardiff in June asked the Commission to evaluate the situation in the light of the conclusions of Luxembourg. The Commission has followed the methodology of the Opinions on the central and eastern European countries. However, in this task it has encountered some difficulties in gathering rapidly all of the information necessary to evaluate the capacity of Turkey to take on the *acquis communautaire* in areas which go beyond the Customs Union and those which are proposed in the European strategy for this country.

## **II. PROGRESS BY THE COUNTRIES OF CENTRAL AND EASTERN EUROPE IN MEETING THE MEMBERSHIP CRITERIA**

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

**political dialogue and tailored strategies to help them prepare for accession. »**

In these reports the Commission has used exactly the same objective criteria to assess the candidate countries that were applied in the Opinions last year. This ensures equal treatment for all the candidate countries. There are no additional factors or new criteria altering the neutral framework used in the Opinions. The Commission has again scrupulously followed the conditions set out by the European Council in Copenhagen and Madrid where the Heads of State and Government underlined the importance of the adjustment of the administrative structures of the candidate countries. The Commission is also taking account, as requested by the European Council in Luxembourg, of the Accession Partnerships which cover « the priorities to be observed in adopting the Union acquis ».

**1. Political criteria**

The Copenhagen European Council stated that 'membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights, and the respect for and protection of minorities'. When the Amsterdam Treaty enters into force, the present Article O of the Treaty will be amended to enshrine a constitutional principle that 'The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law'.

In the Opinions, the Commission drew the overall conclusion that all the candidate countries, except one, met the political criteria even if a number of them still had to make progress concerning the actual practice of democracy and protection human rights and minorities. The Commission considered that only Slovakia did not satisfy the political conditions. The recent elections have brought a new government to power, which is likely to introduce reforms which could change this situation.

Concerning **democracy** and the **rule of law**, the Commission has looked at the way democracy functions in practice instead of relying on formal descriptions of the political institutions. On the whole, the Commission considers that the overall situation remains satisfactory as democratic developments are being consolidated, reinforcing the positive trends noted in the Opinions. Free and fair elections have taken place, at Parliamentary or Presidential level, in Poland, Hungary, the Czech Republic, Lithuania and Latvia over the past eighteen months. In these cases, the candidate countries have proved to have the stability of institutions enabling the public authorities to function properly and democracy to be consolidated. Slovakia also seems to be moving in this direction.

Despite these positive developments, not enough has been done to overcome the shortcomings identified in the Opinions on institutional matters. A common problem for all the candidate countries remains the inherent weakness of the judiciary, from the training of judges to procedural reform aimed at overcoming excessive delays in court cases. This is particularly serious in Poland, the Czech Republic, Slovenia and Estonia. For Slovakia, one of the main issues remains the independence of its judges. While Hungary has made efforts to improve the workings of its legal system, others have made little headway since the Opinions.

The fight against corruption needs to be strengthened further. The efforts undertaken by the candidate countries are not always commensurate with the gravity of the problem. Although a number of countries are putting in place new programmes on control and prevention, it is too early to assess the effectiveness of such measures. There is a certain lack of determination to confront the issue and to root out corruption in most of the candidate countries.

Concerning **human rights**, respect for fundamental rights is generally guaranteed in the candidate countries. Most of the candidate countries are ratifying the main human rights instruments.

The Commission, however, still considers that the independence of radio and television needs to be strengthened in some cases.

In the specific case of Romania, the Government has continued to take measures, with Phare support, to improve the protection of the nearly 100,000 abandoned children in state orphanages. Efforts have been made to support the re-integration of children into their families or adoption by foster families.

On **minorities**, the EU has already welcomed the outcome in Latvia's recent referendum on the citizenship law as it will facilitate the naturalisation of non-citizens and their stateless children. For Estonia, it is regrettable that Parliament has not yet adopted amendments to the Citizenship law to allow stateless children to become citizens.

The situation of the Roma continues to be problematic as the candidate countries concerned have made little progress in addressing the issue. Although their legal status and rights remain stable, the Roma suffer discrimination and social exclusion, in particular in Hungary, Slovakia, Bulgaria and the Czech Republic. Home to several million Roma, Romania needs to step up its efforts to improve the situation of this minority.

For the Hungarian minority in Romania, the situation shows signs of improving at all levels of public life, including the Romanian authorities' resolve to find an arrangement to create a Hungarian-German university. Until now, the situation of the Hungarian minority in Slovakia has been the cause of some concern. The inclusion of representatives of the Hungarian minority in the new Slovak government sends a positive signal to the Hungarian minority regarding their status in Slovakia.

In general terms, it appears that while there are no new problems or setbacks to the democratic functioning of the political and legal systems in the candidate countries, very little has been accomplished in the past eighteen months although further efforts are still needed in this area. Overall, the problem of minorities continues to raise concerns in the perspective of enlargement.

## **2. Economic criteria**

The Opinions stated that all candidate countries in central and Eastern Europe had made considerable progress in the transition to a market economy after the break-up of the former communist trading bloc. While recognising that the starting points of these countries were different, the Opinions attached great weight to the consistent application of a widely supported set of market-oriented reforms and economic policies. At the same time, the analysis pointed

out that, although some candidates achieved high economic growth, many were still facing considerable macroeconomic risks.

Since the Opinions economic growth in the ten candidate countries in central and Eastern Europe (CEEC) has not been significantly affected by the worsening of the international environment and the turmoil in the financial markets. For this year, the expected average rate of growth of real output for the ten is 3.5%, with most of them having growth rates in the range of 4-7%, rates which are amongst the highest in the world. The highest rates can be observed in Estonia, Latvia and Poland. Output growth is being driven by domestic demand and within this fixed investment in particular. The contribution of net exports is marginally negative due to higher import than export growth. In contrast to the positive growth overall, real GDP in Romania and the Czech Republic has been falling, but for reasons unrelated to the downturn in the international economic environment. In Romania the role of the state continues to be too dominant in many sectors of the economy. The Czech Republic needs further and reinforced structural reforms to sever the too intimate links between its enterprises and banks. Bulgaria is recovering from its recent economic downturn and growth will be positive this year.

Foreign direct investment (FDI) has continued to increase even if it is still low in comparison with western Europe. Countries where privatisation and structural reforms are either proceeding at a steady pace or have accelerated recently, such as Hungary, the Czech Republic, Estonia, Slovenia, Latvia and Lithuania have received the largest per capita inflows. In particular, Latvia has attracted inflows of FDI in 1997 amounting to 7.6% of GDP, the highest in the region. FDI into Lithuania doubled in 1997 for the second year in a row reaching 3.4% of GDP. Bulgaria too has continued to attract FDI although to a lesser extent in 1998. These figures show that the recommendations of the Opinions have not redirected FDI flows away from the countries with which negotiations have not yet been launched as was feared by some.

GDP per capita at purchasing power parity of some candidate countries is close to that of some Member States (Slovenia 68% and Czech Republic 63% of the Community average). Unemployment is falling in Latvia, Poland, Hungary and Lithuania. Inflation rates are diminishing and below the two digit level in Slovenia, Czech Republic, Slovakia, Latvia and Lithuania. Budgetary deficits are small; some countries (Estonia and sometimes Latvia) are even in surplus.

Trade balances are negative because the economies of candidate countries are taking off, although in some countries (Estonia, Latvia, even Lithuania, Czech Republic, Poland and Slovakia) this deficit may be too large. The current account is also strongly negative in Estonia, Slovakia and Lithuania. The external debt of Romania is increasing.

The economic impact of the Russian crisis on the candidate countries can be expected to remain limited at this stage, for two main reasons. First, from the start of the transition process, candidate countries have progressively and successfully reoriented their trade from the former Soviet bloc to the EU. They have achieved a high degree of trade integration and across the board around 60% of their trade is with the EU. The second and more fundamental reason is that the perspective of EU accession and the gradual implementation of the Community acquis has had a noticeably favourable effect on market sentiment.

Nevertheless, conditions on international capital markets have become more difficult. Prior to the outset of the crisis, candidate countries were able to obtain

substantial amounts of foreign financing on relatively favourable terms. At present, markets are providing funds only at higher costs, and countries that are perceived to have weak economic fundamentals are being affected more than others. For the candidate countries, this should create a strong incentive to speed up structural reform and strengthen economic policy.

Against this background, in this new assessment, the Commission has again followed the methodology applied in the Opinions. Therefore, it has examined progress achieved on the Copenhagen criteria to arrive at an evaluation of the total achievement to date. The criteria have been applied on the same basis as in the Opinions. This first review, however, takes into account a year and half of extra observations.

The Commission set out as clearly as possible its definition of the Copenhagen criteria in the Opinions. However, it is the interplay and interaction of all conditions, and their mutually reinforcing effects on the economy, that are pertinent. There is also an important time dimension, and the issue of track record, which was one of the factors considered in the Agenda 2000. In this context track-record means the irreversible, sustained and verifiable implementation of reforms and policies for a long enough period to allow for a permanent change in the expectations and behaviour of economic agents and for judging that achievements will be lasting.

The criterion for the existence of a market economy needs to be met now whereas the second criterion – the capacity to withstand competitive pressures and market forces within the Union – applies in the medium term.

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

The existence of a functioning market economy is assessed on the basis of the following factors :

- equilibrium between demand and supply is established by the free interplay of market forces; prices, as well as trade, are liberalised;
- significant barriers to market entry (establishment of new firms) and exit (bankruptcies) are absent;
- the legal system, including the regulation of property rights, is in place; laws and contracts can be enforced;
- macroeconomic stability has been achieved including adequate price stability and sustainable public finances and external accounts;
- broad consensus about the essentials of economic policy;
- the financial sector is sufficiently well developed to channel savings towards productive investment.

The report assesses each candidate in the light of progress made in respect of these conditions. The Commission finds that the Czech Republic, Estonia, Hungary, Poland and Slovenia can be regarded as functioning market economies. All five have made further progress since last year, even if in all these cases some important features, such as financial markets, still need to mature. Slovenia also needs to improve the working of market mechanisms. A sixth applicant -Slovakia- comes very close in terms of legislation and systemic features, but excessive government intervention and lack of transparency is not compatible with the workings of a market economy; moreover macroeconomic stability has deteriorated.

Two other candidates – Latvia and Lithuania – have made substantial progress in becoming market economies. Sustained implementation of reforms already underway will allow Latvia to meet the first economic criterion in the very near future. There have been considerable improvements in the macroeconomic situation and in establishing the legal framework and institutions of a market economy. Barriers to market entry and exit have been reduced and the broad consensus on the essentials of economic policy has been reinforced.

Although Lithuania has also made important progress, sustained implementation of the remaining reform agenda is needed to complete the process of becoming a market economy. Latvia, and to a lesser extent, Lithuania, are approaching the situation of Estonia in 1997, but in a number of areas, the implementation of economic policy and reforms are too recent to allow the Commission to conclude today that they can already be considered as functioning market economies.

Bulgaria cannot be regarded as a functioning market economy although it has made substantial progress in adopting the necessary measures and in establishing macroeconomic stability. For Bulgaria the main remaining challenge is to strengthen the implementation of legal and institutional reforms, to avert the risk of further macroeconomic instability and avoid any policy reversals.

Only Romania has not improved with respect to this first criterion. The Romanian government has not yet been able to adopt the required measures, mainly due to a lack of political consensus. Also the macroeconomic situation has deteriorated

Overall, candidate countries have made considerable progress in their transition to market economies, although their economic conditions continue to vary considerably, because of different starting positions. Those who inherited comparatively stable socio-political conditions, namely Hungary and Poland have shown a sustained commitment to reforms and continue to make steady progress. Estonia also falls into this category. The Czech Republic and Slovenia, although closely behind, have not shown as sustained political commitment to market reforms.

**b) The capacity to withstand competitive pressure and market forces within the Union**

The second economic criterion the capacity to withstand competitive pressure and market forces within the Union is assessed on the basis of the following factors :

- the existence of a functioning market economy, with a sufficient degree of macroeconomic stability for economic agents to make decisions in a climate of stability and predictability;
- a sufficient amount, at an appropriate cost, of human and physical capital, including infrastructure (energy supply, telecommunication, transport, etc.), education and research, and future developments in this field;
- the extent to which government policy and legislation influence competitiveness through trade policy, competition policy, state aids, support for SMEs, etc.;

- the degree and the pace of trade integration a country achieves with the Union before enlargement. This applies both to the volume and the nature of goods already traded with member states ;
- the proportion of small firms, partly because small firms tend to benefit more from improved market access, and partly because a dominance of large firms could indicate a greater reluctance to adjust.

Assessing a country's position vis a vis the second criterion is even more difficult than the first because: (i) the criterion is more complex; (ii) the judgement has to be made in a medium-term perspective; (iii) meeting this criterion depends in part on meeting the first, and (iv) even when the right policy measures are being taken, these take time to work their way through the economy and have their full impact on its ability to cope with competitive pressures. Hence the issue of track record is again very important.

The Commission finds that two countries -Hungary and Poland- have continued to improve their ability to meet competitive pressures and should be well able to satisfy the second criterion in the medium-term, provided that current efforts are maintained. Slovenia should also be able to cope with competitive pressure and market forces within the Union in the medium term, on condition that it accelerates the implementation of planned reforms. The Czech Republic can also still be considered to be able to meet the second criterion, even though it lost some ground compared with last year. The prospects of Slovakia's capacity to cope with competitive pressure and markets forces within the Union in the medium term are good, provided the government takes urgent steps to establish a fully functioning market economy. Estonia is in a very similar situation, but its important external deficits continue to pose problems for lasting development, despite recent improvements.

Latvia has made great strides recently but needs to demonstrate the sustainability of reforms. The privatisation process is being completed but further efforts are needed in the area of financial supervision, increasing the value added in certain key export sectors, and simplifying the legal environment for enterprises.

Similar strides have been made by Lithuania which still needs to complete the privatisation process, reform the energy sector and ensure that the bankruptcy regulations function smoothly.

Bulgaria has also made progress recently although the privatisation process appears to be slowing down. Further efforts to improve competitiveness are needed.

Romania's situation has deteriorated due to the government's lack of commitment to structural reforms and it still has a long way to go.

Hence in total six countries, Hungary, Poland, the Czech Republic, Estonia, Slovenia and Slovakia should be able to cope with competitive pressure and market forces within the Union in the medium-term. However, extra vigilance to ensure that current reforms are fully implemented is necessary in the Czech Republic; Estonia should continue to strongly pursue the macroeconomic policies necessary to limit the risks from the large external imbalance; and Slovakia should tackle its remaining structural problems in a transparent and market-based way. Provided that they continue to implement their reform agenda in a sustained manner, Latvia, and to a

lesser extent also Lithuania, should be able to make the progress necessary to cope with competitive pressure and market forces within the Union in the medium term.

In conclusion, taking the two criteria together, it can be said that none of the applicants today fully meets the Copenhagen criteria, as was the case at the time of the Opinions. Hungary and Poland come closest, while the Czech Republic and Slovenia, although still ahead of the others, have lost some ground. Estonia has continued to make progress; it can be regarded as a market economy and should be able to cope with competitive pressure in the medium-term. Latvia, and to a lesser extent Lithuania, have recently made significant progress, but cannot yet be regarded as fully satisfying either criteria especially as many measures have only recently been taken. Bulgaria and Romania do not meet either criteria. However, Bulgaria has recently made some significant improvements and it is showing determination in its commitment to reforms, but started from a very low level. The situation in Romania has deteriorated compared with last year. In view of likely changes in economic policy in Slovakia following the recent elections, it is too early to attempt now to assess Slovakia's ability to meet both criteria in the medium term.

### **3. Other obligations of Membership**

The Copenhagen European Council concluded that membership requires 'the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

#### **a) The aims of political, economic and monetary union**

##### *Common foreign and security policy*

The candidate countries have continued to align themselves with the CFSP of the Union, demonstrating their will to contribute to effective action in the common foreign and security policy area through political dialogue and concrete actions.

Apart from the Cypriot problem, there are a number of issues highlighted in the Opinions which have not yet been resolved. These include the problem between Slovenia and Croatia over Piran Bay; the maritime border issue between Latvia and Lithuania, and the discussions between Hungary and Slovakia on the Gabčíkovo dam. Latvia and Estonia are ready to sign border agreements as soon as Russia is prepared to do so.

In Agenda 2000, the Commission pointed to the need for the candidates to make every effort to resolve border and other unresolved disputes with third countries before accession.

##### *Economic and monetary Union*

EMU is an integral part of the Community acquis. However, a clear distinction should be made between participation in EMU<sup>1</sup> - compulsory for all Member States – and adoption of the euro as a single currency. New Member States are not expected to adopt the single currency upon accession, even though they will be taking part in EMU. EMU implies a gradual development of the economies of candidate countries leading to the final adoption of the single currency as ultimately all Member States must introduce the euro.

Three distinct preparatory phases can be identified:

- 1) the pre-accession phase, covering the period up to accession;
- 2) the accession phase, covering the period from accession to adoption of the single currency, and;
- 3) the final euro phase, with the adoption of the euro.

Each phase entails a specific acquis.

**Pre-accession phase:** during this phase, candidate countries carry out the economic reforms needed to fulfil the Copenhagen economic criteria on the existence of a functioning market economy and on the capacity to cope with competitive pressure and market forces within the Union, the latter interpreted in the medium term. Meeting the economic criteria will ensure that the general economic framework – including institutions and policies – are broadly compatible with EMU, even though further improvements may still be needed. Also specific parts of the Community legislation on EMU need to be adopted to be in place for accession, namely :

- Completion of the orderly liberalisation of capital movements.
- Prohibition of any direct public sector financing by the central bank and of privileged access of the public sector to financial institutions.
- Alignment of the national central bank statutes with the Treaty, including the independence of the monetary authorities and the respect of the price stability goal.

These requirements, together with the continued implementation of the proper economic policies and reforms will enable candidate countries to participate in EMU upon accession without adopting the euro. The economic and legal framework put in place will ensure the capacity to take on other obligations in this field.

**Accession phase:** upon accession, new Member States participate in EMU and have to comply with title VI of the Treaty. This includes the following obligations:

- Adherence to the aims of economic and monetary union;

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<sup>1</sup> The process of EMU is now in its 2<sup>nd</sup> stage. On January 1, 1999, the 3<sup>rd</sup> and final stage of EMU will commence. It will no longer be accurate to refer to EMU as being in its 3<sup>rd</sup> stage. The process will be completed and the EU will be in the EMU, even though some Member States will have a derogation. The legal requirements relating to the 2<sup>nd</sup> and 3<sup>rd</sup> stage and the capacity to take on the obligations of EMU will become the EMU acquis.

- Treatment of exchange rate policy as a matter of common interest and, later, participation in the exchange rate mechanism;
- Treatment of economic policies as a matter of common concern and co-ordination of economic policies between the Member States through participation in Community procedures;
- Avoidance of excessive government deficits and adherence to the relevant provisions of the stability and growth pact;
- Further adaptation of the national central bank's statutes with a view to integration in the European System of Central Banks (ESCB).
- Progress towards the fulfillment of the Maastricht convergence criteria (on public finances, inflation, exchange rates and long term interest rates).

**Final euro phase:** the participation of new Member States in the euro area will be decided in the light of their compliance with the necessary conditions for the adoption of the single currency, following the examination of the achievement of a high degree of sustainable convergence. However, prior to accession, there is no institutional requirement to assess progress made on convergence criteria.

In conclusion, the Opinions assessed progress achieved under the pre-accession phase. It concluded that the participation of the Czech Republic, Estonia, Hungary, Poland, Slovenia and Slovakia in EMU as a non-participant in the euro area should pose few problems in the medium term, provided that the necessary measures specified in the Opinion were taken by each country. For Bulgaria, Latvia, Lithuania and Romania the Opinion concluded that their participation in the third stage of EMU as non-participant to the euro area could pose serious problems.

For all countries, the Opinions concluded that it was still premature to judge when they will be ready to adopt the euro.

Overall, the regular reports confirm the assessment of the Opinions. However, recent progress made by Latvia and Lithuania would suggest that they should be in a position to be able to participate in EMU as a non-participant in the euro area with few problems in the medium term, provided that they continue to steadfastly implement their reform programmes. Due to the significant improvement in its macro-economic situation, Bulgaria's participation in EMU in the medium term can now be envisaged if it continues along this reform path. However, Romania's participation in EMU could pose serious problems, due to the deterioration in its general economic situation.

## **b) Adoption of the acquis**

The adoption of the acquis involves a process of transposition, implementation and enforcement. It needs to be set in a strategic context with realistic timetables and backed up with administrative and budgetary resources.

Progress in the adoption of the acquis since the Opinion varies significantly between candidate countries and between sectors.

## Country Overview

The progress of the candidate countries is assessed below from a general perspective, in specific relation to internal market legislation and in regard to the both the fulfillment of obligations under the Europe Agreement and short term priorities of the Accession Partnerships. From this assessment and taking the applicants in the order of their applications for membership, it emerges that:

**Hungary** continues to approach the approximation process in a balanced manner. The rhythm of transposition has remained steady and has generally been accompanied by adequate institutional and financial provisions facilitating implementation. A slow down in the pace of transposition in certain sectors such as the environment, has been accompanied by an increased focus on strengthening implementation structures. This suggests that the objective of effective application, rather than simply transposition, is being meaningfully pursued. There has been a continued focus on the completion of the internal market legislative framework. While Hungary has addressed the Accession Partnership short term priorities in the economic reform area, in reinforcing veterinary and phytosanitary and financial control institutions and in justice and home affairs, insufficient attention has been paid to strengthening regional development structures and to the internal market priorities of alignment of copyright and public procurement legislation and enforcement of state aid legislation.

**Poland** has a mixed record in legislative transposition and implementation. Progress in the adoption of internal market legislation has not proceeded satisfactorily due to delays in the adoption of the new approach and related institutional structures in the standards and certification area. There is also a need to set up a credible system of state aid control. A key weakness in the general record on approximation is environment where only limited progress has been made. On the other hand, despite the number of outstanding trade issues, Poland has demonstrated a willingness to tackle key issues under the auspices of the Europe Agreement in order to work out lasting and sustainable solutions to the various trade and industrial problems. Poland has partially addressed the short term Accession Partnership priorities in the areas of economic reform, industrial restructuring (particularly as regards coal and steel), justice and home affairs, the internal market and regional development. Insufficient attention has been paid to the agriculture, environment and institutional and administrative capacity priorities.

**Romania** has accelerated the pace of transposition in agriculture, energy, transport, regional development and some areas of the internal market. Implementation and enforcement capacities are not yet sufficiently developed however to ensure the effective application of this legislation. Romania has made an effort to meet Europe Agreement obligations and has resolved most of the outstanding trade issues. While Romania has addressed certain aspects of the administrative capacity short term Accession Partnership priority (regional development), the internal market (restructuring of the banking sector, public procurement, state aids), the justice and home affairs (fight against organised crime and corruption, border management, demilitarisation of the police) and environment priorities have not been satisfactorily addressed.

The pace of transposition of EC legislation in **Bulgaria** has picked up in most areas. However, progress in alignment in certain key areas such as public procurement, standards and certification, data protection and state aid monitoring has been limited and overall implementation and enforcement capacities need to be strengthened. Given limited administrative and financial resources, this remains a major challenge and it is too early to assess if the newly transposed legislation will be effectively applied. Bulgaria has made an important effort to meet obligations under the Europe Agreement and the attention devoted to strengthening the intellectual property legislative framework and enforcement capacity reflects positively on the country's ability to adopt and apply key legislation. Bulgaria has made progress in addressing certain aspects of all of the short term Accession Partnership priorities.

The overall pace of **Slovak** approximation has slowed, progress in strengthening implementation and enforcement structures is limited and the lack of momentum in certain sectors where a concerted effort needs to be maintained (e.g. the internal market, environment) is noticeable. While the number of trade disputes with Slovakia have been limited, their management has not demonstrated a clear understanding of and respect for the obligations under the Europe Agreement on the part of the Slovak authorities. An enhanced effort needs to be made to regain momentum in the adoption of key internal market legislation and in the strengthening of the implementation and enforcement capacities relative to that legislation. Slovakia has not adequately addressed the short term Accession Partnership priorities. While free and fair elections were held, a series of political problems still need to be solved. Apart from the adoption of intellectual and industrial property legislation, the short term priorities in the internal market, administrative capacity and environment areas did not receive sufficient attention.

**Latvia** has made significant progress in legislative alignment and in setting up implementation structures in particular in the areas of competition, banking services, transport and standards and certification. Because much of the legislation has been recently adopted, it is too early to assess the efficacy with which it will be applied in some fields. Latvia has respected its obligations under the Europe Agreement. Latvia has addressed in a satisfactory manner most of the short term Accession Partnership priorities, in particular in respect to facilitating the naturalisation process. Intellectual and industrial property and data protection legislation should be adopted and attention needs to be paid to more fully addressing the administrative capacity priority.

**Estonia** has made general progress in the approximation process, although increased attention needs to be paid to the enforcement of internal market legislation (in particular intellectual property, standards and certification and state aids) and to the preparation of a strategy to introduce customs duties and the corresponding administration. Estonia has taken important steps to put legislation and structures in place in the justice and home affairs area. Estonia has respected its obligations under the Europe Agreement. Estonia has addressed aspects of all of the short term Accession Partnership priorities. However, efforts related to the administrative capacity and internal market priorities need to be enhanced.

**Lithuania's** record is mixed. Efforts need to be stepped up to complete the legislative framework and strengthen the institutions in the internal market

area. In other areas, such as environment, where the pace of transposition has been impressive, there is a need to ensure that the implementation and enforcement structures are adequate to permit the application of the laws. Lithuania has used the institutions of the Europe Agreement to deal with outstanding bilateral trade and cooperation issues. Lithuania has taken steps to address some of the Accession Partnership short-term priorities. However, significant efforts are still needed to fully address priorities in the areas of energy (establishment of the energy strategy); economic reform (establishment of a medium term economic programme); administrative capacity (financial control and regional development); internal market (public procurement, intellectual property and state aid) and JHA (improvement of border management).

**The Czech Republic** made only limited progress in the overall approximation process. In regard to the internal market, good progress was made in the area of standards and certification and to a lesser extent in banking and capital market supervision. In other key internal market areas such as intellectual and industrial property, public procurement, data protection, insurance and state aid control little progress was made. The Czech Republic was in breach of obligations under the Europe Agreement in regard to certain agricultural imports and in relation to lottery legislation. While the Czech Republic has addressed short term Accession Partnership priorities in the macroeconomic area, banking and financial sector, standards and certification, regional development and veterinary areas, it has not satisfactorily addressed priorities in the areas of industrial restructuring, administrative capacity, the internal market (alignment of intellectual property, anti-trust and state aid legislation) and JHA (border enforcement, judiciary).

**Slovenia** has not progressed in its overall approximation effort. Important progress is still needed in the area of state aids control. Key parts of internal market legislation are missing. The determination of Slovene authorities in tackling key issues such as the abolishment of duty free shops and the timely introduction of VAT and excise legislation has not been steady. With the exception of the economic reform priority, Slovenia has not adequately addressed the short term Accession Partnership priorities.

### Sectoral Overview

Progress in the adoption of the *acquis* varies considerably between sectors. While the following is not an exhaustive survey of all parts of the *acquis*, some general trends can be noted.

While most of the candidate countries continued to give priority to internal market legislation, there are certain aspects of internal market legislation in which the approximation process has been slow and progress limited in all the candidate countries.

In the area of state aids, for example, no country has a fully functioning system of state aid control (i.e. state aid legislation combined with effective monitoring, reporting and enforcement by an independent monitoring authority). Some of the candidates have adopted legislative provisions and have taken first steps in setting up the appropriate control institutions. However, a concerted effort is needed in all candidate countries to make the control and monitoring systems operational.

The establishment of a system of standards and certification similar to that in the EU is not completed in any of the countries. Some of the candidate countries (Slovakia, Bulgaria, Poland, Slovenia, Lithuania) have not yet adopted the necessary framework legislation or taken steps to set up or fully adjust the related institutional framework (e.g. separation of the legislative, standardisation and accreditation tasks, establishment of market surveillance mechanisms). The problems of continued reliance on mandatory certification, delays in adopting product liability legislation, the lack of progress in setting up market surveillance mechanisms and inadequate preparation of the private sector to undertake voluntary certification need to be seriously addressed in order for the candidate countries to be successfully integrated into the internal market.

Most candidates have made some progress in aligning VAT legislation. However, full alignment has not been achieved in any candidate country. The only country which does not have a system of VAT, Slovenia, has not made significant progress in introducing the system. Progress in the excise area is more limited, with particular delays in harmonising rates and establishing excise suspension systems where goods can move between authorised tax warehouses without payment of duty.

Progress in other sectors such as transport, energy and agriculture is uneven. Performance in the environment sector is mixed. Hungary's rhythm of approximation has slowed but attention has been focused on necessary preparation of implementation and enforcement structures. Estonia, Latvia and Lithuania have made important progress in transposition but without a commensurate effort as concerns the preparation and strengthening of related implementation structures and investment. The Czech Republic and Slovenia have developed detailed approximation programmes and strategies but have not yet put them into practice. Romania, Poland and Slovakia have made little progress in the environmental field.

Apart from Hungary which has made steady progress in the area of financial control, all of the candidate countries need to make major efforts to ensure effective financial control. The development of internal control systems requires particular attention.

In the area of Justice and Home Affairs, countries can be divided into three categories: those which have demonstrably adopted a clear strategy which they are following willingly and methodically and thereby gaining visible results in most areas (Estonia, Hungary, Poland); those where although progress should be highlighted the results are more uneven because of a lack of method or because of difficulties in going from the stage of adopting texts to the operational phase (Latvia, Bulgaria); those which are registering few results either because they have slowed the pace or because they have difficulties in adapting to the *acquis* of the Union or because of serious gaps in their organisation (Czech Republic, Slovenia, Slovakia, Romania, Lithuania).

All of the countries have continued to make good progress in research and technological development, education and training and telecommunications. In contrast, progress in the audiovisual sector is very

limited and none of the candidate countries have fully aligned to the Television Without Frontiers directive.

In general, Hungary, Latvia and Estonia have maintained a good pace of legislative approximation, with Hungary also demonstrating its capacity to ensure that implementation and enforcement capacity is adequately strengthened in line with the adoption of legislation. Bulgaria and Romania have stepped up their efforts in legislative transposition, albeit from a lower base. Poland and Lithuania have a mixed record, with significant progress in certain areas offset by delays in others. The general pace of transposition has slowed significantly in Slovakia, the Czech Republic and Slovenia. Progress in the competition, standards and certification and environment sectors has been limited and efforts need to be increased in these sectors in all the candidate countries. In general, the area of state aids remains of particular concern; the Commission underlines the need to make a qualitative leap forward to set up effective control systems.

### **c) Administrative and judicial capacity to apply the acquis**

A well developed civil service and judiciary is central to the candidate countries being able to assume the obligations of membership and to make effective use of EU structural funding. In order to effectively implement and enforce the acquis, existing institutions need to be strengthened and new institutions created. The appropriate human and financial resources need to be made available. Training and career development programmes are key features of this process.

The seriousness with which the candidate countries approach the challenge of administrative and judicial reform is reflected in the comprehensive nature of their National Programmes for the Adoption of the acquis. In preparing these programmes none of the candidate countries undertook a comprehensive needs assessment involving realistic costing and budgetary forecasting. It is important that these programmes be revised with a more rigorous treatment of institution building and strengthening of administrative and judicial capacity.

All of the candidate countries have nonetheless recognised the importance of developing their administrative and judicial capacities. Progress in achieving concrete progress in administrative strengthening and judicial reform varies considerably however between the candidate countries.

**Hungary** has continued to make progress in building up its administrative capacity to apply the acquis. The attention paid to the development of specific European policy and law training courses throughout the administration and in the judiciary attest to the seriousness with which Hungary is approaching the task of improving administrative capacities in the accession context. Hungary needs nonetheless to considerably improve its capacities to use, monitor and control EU financial assistance.

**Poland** has experienced difficulties in implementing planned public administration reforms which are needed to lay the foundation for further improvement of administrative capacities in specific sectors of the acquis. Progress in strengthening the capacity of the judiciary has been limited.

Efforts need to be made to enhance the capacity of the Polish administration to implement and enforce legislation in key internal market areas (standards and certification, intellectual property protection) and customs. Progress has been made in the regional development and financial control areas. There is a need to consolidate the functioning of administrative structures in a sustainable manner.

There has been little progress in the strengthening of the **Romanian** public administration. While in many areas progress has been made in establishing the legal framework for setting up the institutions responsible for the application of EU legislation, there has been little progress in actually creating these institutions. The provision of the financial and human resources to permit the functioning of these institutions, once established, has not been ensured. It is unfortunate that only limited progress has been made in the area of border management, particularly in view of Romania's request to be removed from the common visa list.

The capacity to implement and enforce the *acquis* in **Bulgaria** is still weak. Important initiatives have been taken in general public administration reform and in the areas of anti-trust, indirect taxation and regional policy administration. There is a genuine will to proceed with the establishment of necessary structures, however, the shortage of human and financial resources impedes the translation of these good intentions into concrete progress. Efficient financial control mechanisms and transparent public procurement systems need to be created if EU financial resources are to be correctly and effectively used. In the context of its request to be removed from the common visa list, Bulgaria needs to sustain recent progress in improving border management and alignment in the relevant areas of justice and home affairs.

**Slovakia** has made little progress in developing the necessary administrative and judicial capacity to effectively implement the *acquis*. Civil service legislation has been delayed, progress in judicial reform has been limited and recommendations in the Opinion to reform, strengthen and establish new institutions in the internal market area have not been followed up on.

**Latvia** has made a number of important steps in strengthening its public administration, recognising the importance of setting up and developing enforcement capacity in key internal market areas such as standards and certification, banking, anti-trust and state aids. The ongoing rationalisation of the customs and tax administration needs to be sustained. There is a very clear need to extend training in Community law in the judiciary. The newly established administrative structures need a certain period of consolidation in order to demonstrate their effectiveness.

Although **Estonia** has taken some steps to reform public administration and the judiciary, due in particular to limited human resources, progress is slow and administrative shortcomings exist in key areas such as financial market supervision, state aid monitoring, maritime transport and employment and social policy. The current reorganisation of financial control institutions and the development of regional development structures need to be sustained and consolidated in order for Estonia to be in a position to effectively use EU funds. There is a real human resource problem in the judiciary: there are not enough judges and those in place are either young and inexperienced or have been trained and gained

professional experience under the previous regime. There is thus an important need for training and career development in the judiciary.

**Lithuania.** A number of important agencies and institutions have been established since the Opinion. It is not yet possible to judge their capacity to effectively implement the acquis. The tempo of institution building and strengthening of administrative capacity needs to pick up in order to keep pace with the rate of transposition, particularly in the internal market and environment sectors. There is a widespread need for training to improve staff qualifications.

**The Czech Republic** has recognized public administration reform as a priority but has not yet taken the necessary steps to translate that political commitment into concrete actions. Nonetheless since the Opinion, banking and financial services supervision capacities have improved, institutions in the standards and certification area have continued to strengthen and veterinary structures have undergone a period of consolidation.

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

In sum, Hungary has developed a consistent and strong track record in setting up and strengthening its administrative and judicial capacity to implement and enforce the acquis. Latvia, Estonia and Lithuania have made progress in setting up necessary structures but efforts need to be sustained and the newly established structures need a certain period of consolidation to demonstrate their effectiveness. Although Poland, the Czech Republic and Slovenia started from a relatively solid base, they have not made significant progress since the Opinions. The process of administrative and judicial strengthening has stalled in Slovakia. The capacities of the administration and the judiciary in Bulgaria and Romania remain weak.

This aspect of preparation for membership is crucial and an essential precondition for creating the mutual trust indispensable for future membership. The importance not only of incorporating Community legislation into national legislation, but as well of ensuring its effective application through appropriate administrative and judicial structures was highlighted by the European Council in Madrid and is a central feature of the accession negotiations. In this context, it is important that the candidate countries revise their National Programmes for the Adoption of the acquis such that the document provides not simply an inventory of legislation and approximation schedules but a realistic, detailed presentation of the administrative and financial means for developing the administrative and judicial capacity required to implement and enforce the acquis.

### **III. CYPRUS**

The Commission notes that because of the political situation in Cyprus the screening exercise does not cover Cyprus as a whole and that the invitation of the Cyprus government to include representatives of the Turkish Cypriot community in the negotiations has not been accepted. The Commission agrees with the Council that « progress towards accession and towards a just and viable solution of the Cyprus problem will naturally reinforce each other ».

The report on Cyprus confirms the analysis of the 1993 Opinion concerning the economic disparities of the two parts of the island. The economy of the Republic of Cyprus has continued to perform relatively well since the Opinion, even if in the last two years, real GDP has declined significantly. Agriculture and tourism are facing difficulties because of adverse developments. Despite recent fiscal slippage, the authorities are committed to maintain a stable macro-economic environment and a favorable climate.

Cyprus has in recent years lost competitiveness in traditional sectors (industry and tourism); a need for restructuring of these sectors is required in view of accession to the EU. However, the importance of the tertiary sector has continued to increase, while efforts have been made to reduce the over-dependence of the economy on tourism.

The economic disparity between the northern and the southern part of the island has further increased since 1993. Nevertheless, the integration of the northern part of Cyprus should not raise major economic difficulties.

Concerning the acquis, a large number of the instruments required for the progressive adaptation of the acquis are already contained in the Association Agreement and the 1988 Protocol. On the basis of these instruments, Cyprus has made significant progress in adopting the acquis most notably in the context of the Customs Union. However, substantial efforts remain to be undertaken in the internal market field; this accounts in particular for the off-shore sector, where financial activities which do not seem to be entirely compatible with the prevailing banking legislation. Maritime transport, telecommunications, justice and home affairs are other areas of particular concern.

In view of the 16 chapters already screened, Cyprus should not face major problems in adopting the acquis. In general terms, its administration seems to be prepared to ensure the correct implementation of the acquis.

### **IV. TURKEY**

With regard to Turkey the detailed analysis carried out by the Commission confirms the elements highlighted in Agenda 2000.

On the political level a number of anomalies in the way the authorities operate, the persistent violations of human rights and important deficiencies in the treatment of minorities are causes for concern. The absence of real civilian control over the army is also an anomaly. A civilian and not a military solution must be found for the particular situation in the south east of Turkey. Such a solution is all the more necessary because a large number of the violations of civil and political rights found in Turkey are linked directly or indirectly to the situation in this region. Beyond the resolution of these problems it is up to Turkey to contribute actively to

the resolution of its differences with certain neighbouring countries through peaceful means in conformity with international law.

In economic terms Turkey has, to a large extent, the characteristics of a market economy, in particular a developed institutional and legal framework, a dynamic private sector and a liberal trade system. The Turkish economy has considerable growth potential and has demonstrated a good adjustment capacity, in particular in the context of the Customs Union. These elements should in principle allow Turkey in the medium term to have a viable market economy, able to cope with competitive pressures. In order to ensure the smooth functioning of its economy and in order to draw the maximum possible benefits from it Turkey should establish a permanent, credible and stable macroeconomic framework. Given the very important differences in development levels between different regions in the country, the measures set out in the European strategy should help to reduce these disparities.

With regard to the *acquis* Turkey has demonstrated its capacity to adopt and implement in a timely fashion most of the legislation envisaged in the Customs Union. In most of the areas identified in the European Strategy Turkey has already begun a process of approximation with Community legislation. Important efforts still need to be made in order to complete this process, and in particular in the internal market (in particular in public procurement). Moreover, in sectors which are not covered by either the Customs Union or the European Strategy important progress is still needed with regard to the adoption of the *acquis*.

It is indisputable that Turkey has demonstrated its administrative and judicial capacity to apply the *acquis* within the Customs Union. However, it is not possible at this stage to pronounce on its future capacity with regard to other parts of the *acquis* which have not yet been transposed.

## **V. MALTA**

In reply to Malta's application for membership of 16 July 1990, the Commission issued a favourable Opinion on 30 June 1993. The European Council reaffirmed on several occasions, most recently at Florence in June 1996, that accession negotiations with Malta should start six months after the conclusion of the IGC.

Meanwhile, a new Maltese government decided in October 1996 to suspend its membership application, and Malta was therefore not included in the enlargement process which was launched by the Luxembourg European Council. Instead, in February 1998, the Commission adopted a communication for the Council on future relations with Malta, outside the enlargement context, which focussed on strengthening political and economic ties. In addition the Association Council with Malta on 28 April 1998 adopted a joint declaration on future relations between the parties.

On 10 September 1998 in a letter to the Presidency, Malta expressed a wish to reactivate its membership application. At its meeting on 5 October, the Council asked the Commission to present an update of the Opinion from 1993. To prepare this document, the Commission is addressing a series of detailed questions to the

Maltese authorities, including in areas not covered in the Opinion such as Common foreign and security policy as well as Justice and home affairs. The Commission intends to present this update on Malta to the Council early next year.

## **VI. THE ENLARGEMENT PROCESS**

The enlargement process has developed progressively on the basis of decisions taken by the European Council in Luxembourg in an overall spirit of inclusiveness.

### **1. The European Conference**

The European Conference met for the first time in London on 12 March 1998 at the level of heads of state and government. The conference met again in Luxembourg on 6 October at the level of Foreign Affairs Ministers. On both occasions Turkey declined an invitation.

Set up by the European Council in Luxembourg, the European Conference is the only forum where the candidate countries can meet with Member States to discuss issues with a cross-border dimension such as justice and home affairs, notably crime and drugs, environment, regional cooperation and Common Foreign and Security Policy. The Conference has raised interest among a number of European countries.

Since the aim of the Conference is to provide the overarching framework for the enlargement exercise it is necessary to reserve participation in the Conference for Member States and candidate countries only.

### **2. The Accession Process**

The accession process was launched on 30 March 1998 in Brussels by a meeting of Foreign Ministers of the Member States, the countries of central and eastern Europe and of Cyprus.

This accession process is based on two essential elements:

- The reinforcement of the pre-accession strategy whose objective is to permit all candidate countries to align with the Union's *acquis* as soon as possible and before accession;
- The process of negotiation with six candidate countries.

The link between these two elements lies in an effort to resolve the main problems of each candidate country within the pre-accession strategy so as to avoid burdening the negotiations with an examination of multiple transition periods.

#### **a) The reinforcement of the pre-accession strategy in favour of the countries of central and eastern Europe**

The Accession Partnerships are the main instrument of the pre-accession strategy. They bring together priorities for the adoption of the *acquis*, particularly short term priorities, and the assistance of the EU in support of these priorities. In the course of the second half of next year the Commission

will propose a revision of the Accession Partnerships so as to adapt the priorities to the situation of each country with regard to the membership criteria. This revision will also take account of lessons learned from the screening and the negotiations. It should be noted that the EU has not had to invoke the conditionality clause in the sense that it has not found either insufficient progress in the carrying out of the Copenhagen criteria or failure to meet Europe Agreement obligations. However it will be necessary to follow the situation in certain candidate countries closely since they have not been able to implement the short term priorities of the Accession Partnerships.

During meetings of the Association Committees and Councils under the Europe Agreements the ways in which the Accession Partnerships are being implemented were discussed with some of the candidate countries, depending on the timetables for these meetings. As underlined by the European Council in Luxembourg it is important that the institutions of the Europe Agreement continue to be the framework within which the adoption of the *acquis communautaire* can be examined, according to the same modalities, irrespective of whether or not negotiations have been opened.

Each candidate prepared a National Programme for the adoption of the *acquis* which set out the way in which the priorities of the Accession Partnerships would be implemented (timetable, human and financial resource allocations). The candidate countries were invited to revise their programmes to take account of comments from the Commission. The Commission will take a position on each of these programmes when it proposes to revise the Accession Partnerships. The Commission underlines the importance of coherence between information provided by the candidate countries during the screening on their willingness to take over the *acquis* and the associated specific measures included in terms of human and financial resources in the National Programmes for the adoption of the *acquis*. It is important that there should be coherence between positions taken at the negotiating table and in the pre-accession strategy in particular in the Europe Agreement bodies.

Participation by the candidate countries in **Community programmes** has been actively pursued so that they can familiarise themselves with the policies and working methods of the Union. Today, following the entry into force of the first decisions of the Association Councils in October 1997, February and March 1998, citizens of Romania, Hungary, the Czech Republic, Poland and Slovakia participate actively in areas covering education (Socrates), professional training (Leonardo da Vinci), and youth (Youth for Europe).

Similar decisions for other programmes are being prepared. From 1999 onwards citizens, companies and national administrations of all the candidate countries will join in co-operation and exchange networks in very different areas such as research, culture, audiovisual, environment, energy, public health, social policy, employment, small and medium sized enterprises, customs and taxation.

Moreover the Commission will shortly send to the Council proposals on participation by the candidate countries in Community programmes and agencies. It will also propose appropriate ways of involving these countries in the evolution of the *acquis* in those cases where the Association Council has concluded that the *acquis* is being applied by a candidate country.

With regard to pre-accession aid, in accordance with the conclusions of the Luxembourg European Council, the Commission has proposed to double it from the year 2000 through

- the creation of an agriculture instrument with a budget of 500 MECU a year
- the creation of a structural instrument with a budget of 1,000 MECU a year to finance environment and transport projects.

It has also reorientated the **Phare programme** which will have a budget of 1,500 MECU a year and which will in future concentrate on re-inforcing administrative and judicial capacity in all sectors and on investments linked to the adoption of the acquis in areas not covered by the other two instruments. In all 3 BECU of non-refundable aid will be mobilised. To this should be added the special efforts of the European Investment Bank through its loans (7 BECU). The mobilisation of this Community financing will be increasingly within the framework of the adoption of the *acquis communautaire*.

The Commission has also proposed a **co-ordinating Regulation** so as to ensure coherence between the three funds (a political agreement was reached on this by the General Affairs Council on 26 October). It is important that the candidate countries already take some necessary steps and set up appropriate structures so as to be able to implement these instruments from 2000 onwards, in a multi annual perspective. On the basis of this Regulation, the pre-accession aid could be progressively decentralised to the candidate countries, starting with the Phare programme as envisaged in Agenda 2000, sector by sector and by country on condition that a series of clear conditions are respected, in particular with regard to financial control and public procurement. This decentralisation is indispensable in order to prepare the candidate countries to manage Community funds when they become member of the EU, in particular the Structural Funds and the common agriculture policy.

Under the Phare programme a twinning programme was launched between the administrations of the Member States and of the candidate countries, which should result in 1999 in the sending of around one hundred pre-accession advisers to the candidate countries to help them implement the *acquis communautaire*.

The investments needed by the candidate countries to take over the *acquis communautaire* are very important. Pre-accession aid can only play its full role if it can mobilise funds from the **International Financial Institutions (IFIs)**. With this in mind the Commission signed a working agreement on 2 March 1998 with the EBRD and the World Bank to re-inforce their co-operation and facilitate cofinancing. Four new partners have joined this agreement in October 1998; the Nordic Environment Finance Corporation (NEFCO), the Nordic Investment Bank (NIB), the International Financial Corporation (IFC), and the Council of Europe's Social Development Fund. From this year onwards under the Large Scale Infrastructure Facility over 900 MECU were mobilised (150 MECU from Phare and 750 MECU by the IFIs) for projects in the areas of transport and environment. Thus one ECU in grants from Phare mobilised 5 ECU from the IFIs and this figure goes up to 8 ECU when one adds in the resources which the candidate countries themselves contribute to the projects.

However the needs of the candidates in terms of alignment with EU standards are too important to be met only by EU grants, EIB or IFI loans. EU companies should also invest more in the candidate countries. In what other parts of the world could they find growth rates today of 6 or 7% ? For example the private sector should get more involved in the environment sector which is a new « market ». It is for the candidate countries to put in place the legal framework (for example, public service franchises) which will allow the private sector to help them to take up the challenge of alignment with EU standards through investments which cannot be financed solely from the public purse.

Finally the Commission has launched a special « facility » with a budget of 100 MECU for 1998 and 1999 for Bulgaria, Latvia, Lithuania, Slovakia and Romania, centered on actions in the areas of investment promotion, economic restructuring and the fight against corruption.

The implementation of the pre-accession strategy has yielded several lessons with regard to a number of delicate questions which need to be resolved in the perspective of enlargement.

- In the implementation of the internal market it seems necessary to restate “the importance of applying in advance of accession all the elements of the White Paper on the single market” as underlined in Agenda 2000. However, since the Opinions, there has been a relaxation, including on the part of those countries which seemed most advanced in their preparations for the internal market, of important measures, in particular public procurement, indirect taxation, control of state aids. If this relaxation was to be confirmed it would run directly counter to the common and irreversible objective of a single market at the moment of accession which must be considered by each candidate as an end date just as 31 December 1992 was for the Member States. It is therefore important that the candidate countries take on board the exceptional character of the single market area in the transition period. In this respect it is necessary to ensure that the candidate countries do not postpone inevitable political decisions with the pretext of looking for a palliative in the pre-accessions strategy.
- The granting by the candidate countries of state aids which would be incompatible with the rules of the European Union, on the eve of accession, could create distortions of competition including in the markets of the European Union. To avoid this problem the Commission intends to propose the extension of the system of notification and approval of aids envisaged in the Europe Agreements and to encourage the candidate countries to give up the practice of granting national preference in public procurement markets.
- The elimination of borders between the European Union and the candidate countries implies not only efforts to approximate legislation, in particular in the internal market area, but also in parallel a reinforcement of controls on **their external borders** which will become external borders of the European Union. The fight against organised crime, drug trafficking, illegal immigration is an imperative. The Member States of the Union should have the assurance that security measures equivalent to their own will be in place by the date of accession. To this end it is important that the objectives of the pre-accession pact against organised crime which links the Member States and the candidate countries should be translated into concrete action. Pre-accession assistance in these areas under the Phare

programme has been considerably increased both as regards training and the provision of equipment.

- Bulgaria and Romania have both asked repeatedly to be removed from the common visa list. Both are conscious of the need to reinforce border and other controls against illegal immigration in order to meet Member States concerns. The Commission will continue to support Bulgaria and Romania in their efforts to come closer to the *acquis* which should in time enable the Member States to accede to these requests. In the meantime, the Commission will ask the Member States to accelerate the issuing of visas and to consider easing the procedures for certain categories of travellers.
- Moreover, the gravity of the situation of the candidate countries in relation to the requirements of the *acquis* in the environment do not yet seem to be translated into a political priority. It is symptomatic that beyond the transposition of a few parts of the *acquis* most of the candidate countries have not defined a strategy for the financing of investment in this area. In this context the Commission is very concerned by the absence of specific programmes in Lithuania, Bulgaria and Slovakia, to close, in keeping with commitments already undertaken in the Nuclear Safety Account Agreement and in line with the priorities of the Accession Partnerships, certain nuclear power plants which cannot be modernised to bring them into line with international security standards and whose continued operation presents serious risks for the whole of Europe.

#### **b) Analytical examination of the *acquis communautaire* (screening)**

As requested by the European Council in Luxembourg, the Commission organised an analytical examination (screening) of the *acquis communautaire* with two groups of countries, those with which negotiations have been opened and those with which they have not yet been opened. The aim of the screening is to explain the *acquis* to facilitate its adoption, and to measure the difficulties of the candidate countries in this respect. All of the countries were well prepared for this exercise which has lived up to expectations. Beyond the challenge of adopting Community legislation all the countries face difficulties in the creation and reinforcement of the structures necessary for its effective and efficient implementation.

##### Screening for the countries with which negotiations have been opened

Between 27 April and the end of October 1998, the screening of 16 out of the total of 31 negotiating chapters was completed with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia.

On each of these chapters, screening reports have been submitted to the Council, with the exception of the reports on free movement of goods and external relations which will follow soon. The reports on screening are submitted on the understanding that they could be updated also in the case of the Turkish Cypriot's participation community in the negotiations at a later date.

The countries used the bilateral meetings to the full for obtaining clarifications and identifying problems. In their initial positions taken during bilateral meetings the applicant countries showed that they were fully aware of the conditions for negotiations, declared willingness to take over the *acquis* and sought to limit any transitional periods. Moreover, they were forthcoming in supplying

information about the state of the legislative and institutional preparation of their countries, stressing that they expected to have completed this preparation with very few exceptions by the time of accession. The screening process, which has now covered both straightforward and more complex chapters, thus produced encouraging signals.

#### Screening for the countries with which negotiations have not yet been opened

The Commission has begun an analytical examination of the *acquis communautaire* on 3 April 1998 with the countries with which negotiations have not yet started: Bulgaria, Latvia, Lithuania, Romania and Slovakia.

The Commission has just completed the screening of 28 chapters of the *acquis* with these five countries in a first multilateral phase which has been largely didactical. With the exception of the Common Agricultural Policy, which will be examined at the beginning of next year, the whole of the *acquis* will have been examined by the end of the year.

A more precise identification of these problems will be made during bilateral screening meetings in the first quarter of 1999. It is only once this bilateral part of the screening has been completed that the Commission will be able to draw up a precise balance sheet, candidate country by candidate country.

#### **c) Progress in the accession negotiations**

At the General Affairs Council of 5 October, the Union decided to proceed to first substantive negotiations with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia. This decision was based on negotiating positions presented by the applicant countries on seven chapters screened, i.e. Science and Research; Telecommunications and Information Technology; Education and Training; Culture and Audio-visual policy; Industrial policy; Small and Medium-Sized Enterprises and Common Foreign and Security Policy. For each of these chapters, and for each of the applicants, the Commission had submitted Draft Common Positions.

For the majority of the seven chapters the applicant countries had indicated that they could accept the *acquis* and that they would be in a position to apply it fully by the date of accession. The applicants' positions were based on the working hypothesis that they would join the European Union on 1 January 2002 in the case of Hungary and on 1 January 2003 for the others.

Only a few requests for transitional periods were made. Poland, Hungary and Cyprus requested transitional periods beyond their working hypotheses in the area of **Telecommunications**. Hungary asked for a transitional period till 31 December 2002 for the full liberalisation of public networks voice telephony. Poland sought a transitional period of yet undetermined length for full access to certain frequency bands for mobile communications. Cyprus requested a transitional period till 31 December 2003 for the full liberalisation of the telecommunications market and the establishment of its national regulatory body. Under **Industrial policy**, Hungary requested a 6-month transitional period till 31 July 2002 for the European Coal and Steel *acquis* until the expiry of the ECSC Treaty. Under the **Audio-visual chapter**, Slovenia sought a two-year transitional period for fully implementing the television without frontiers directives and the Czech Republic requested a transitional arrangement until 2005 for pay and cable television.

Without prejudice to the Common Positions to be presented by the Union on 10 November, these seven chapters which present few problems do not require extensive negotiations at this stage. At the appropriate moment they should be updated in the light of the further development of the *acquis* and be considered in the overall context of the negotiations. On the other chapters the dialogue with the applicants should be pursued in order to clarify their positions (e.g. requests for transitional periods and/or preparations of their implementation capacity).

In parallel to these developments, the Commission will pursue the analytical examination of the *acquis* with the applicant countries and will, at the appropriate moment, submit draft Union Negotiating Positions to the Council. The Commission will do so in time for the negotiating sessions at Deputies' and Ministerial level to be organised under German Presidency during the first semester of 1999.

**d) Specific strategy for Cyprus**

The Luxembourg European Council decided on a specific pre-accession strategy for Cyprus based on its participation in certain targeted projects and on its participation in certain community programmes and agencies, as well as the use of technical assistance provided by TAIEX. Cyprus is already participating in three Community programmes: Leonardo, Socrates and Youth for Europe. It has recently benefited from technical assistance provided by TAIEX to improve its capacity to apply the *acquis*.

In this context, and despite the fact that the participation in the programmes are open to them, no representatives of the Turkish Cypriot community have so far taken part in the accession process.

**e) European strategy for Turkey**

The European Council in Luxembourg considered "that it is important for a strategy to be drawn up to prepare Turkey for accession by bringing it closer to the European Union in every field. This strategy should consist in development of the possibilities afforded by the Ankara Agreement, intensification of the Customs Union, implementation of financial co-operation, approximation of laws and adoption of the Union *acquis* and participation to be decided case by case in certain programmes and in certain agencies".

On 4 March 1998 the Commission sent to the Council an action programme aimed at deepening the Customs Union, extending it to agricultural and services as well as further co-operation in areas such as telecommunications and information society, environment, energy and transport. The implementation of the European Strategy formed the basis for in-depth discussions between the Commission and the Turkish authorities in September 1998.

Recalling the necessity for financial support for the European Strategy the European Council in Cardiff took note of "the intention of the Commission to reflect upon means of supporting the implementation of the European Strategy and to present appropriate proposals to this effect". On 21 October 1997 the Commission submitted to the Council two proposals for financial support for the European Strategy.

## VII Conclusions and Recommendations

1. Since the publication of the Opinions and the launching of the accession process preparatory work on enlargement has developed considerably. The reports presented by the Commission, at the request of the European Council, measure the journey made by the candidate countries on the road to accession which, to differing degrees, have continued their efforts to adjust to the constraints of their future status as Member States of the European Union.

In its evaluation of the situation of each candidate country the Commission has followed the most objective approach possible, based on the criteria for membership adopted by the European Council in Copenhagen, to which nothing has been added. It is most important that the preparatory efforts be judged in the framework of a global and inclusive process and on the individual merits of each candidate country.

The analysis of progress made by candidate countries in the last year and a half does not lead the Commission to modify its evaluation made in July 1997. **Therefore it does not feel it necessary, on the basis of the reports which are being presented, to make new recommendations “on the conduct or extension of the negotiations” as envisaged by the European Council if necessary, for the end of 1998.**

2. With regard to a future extension of the negotiations, the Commission wishes to highlight the particular progress made by **Latvia**. If the momentum of change is maintained, it should be possible to confirm next year that Latvia meets the Copenhagen economic criteria and, before the end of 1999, to propose the opening of negotiations.

Considerable progress has also been made by **Lithuania**. However, additional measures are needed and some recent decisions need to be tested in practice before it can be considered to meet the Copenhagen economic criteria, which should allow the Commission to propose the opening of negotiations.

The new situation created in **Slovakia** following the elections also allows for the prospect of opening negotiations on condition that the regular stable and democratic functioning of its institutions are confirmed. It will also be necessary, before opening negotiations, to verify that Slovakia has undertaken measures to correct the economic situation and has introduced greater transparency in its operation.

**Bulgaria** has made considerable progress in macroeconomic stabilisation and the reforms which are being implemented, although at an early stage, are helping to improve its international competitiveness. **Romania** has not made further progress since the Opinion and its economic situation gives cause for concern. Sustained efforts are needed, with the support of the EU and the international community, to accelerate reforms and put Romania back on track.

3. The reports show a worrying slow down in the rhythm of transposition and application of the *acquis* in certain states with which negotiations are underway, in

particular **Slovenia** and the **Czech Republic**. If this stagnation continues it would create a problem for the capacity of these countries to meet their obligations as future Member States in the medium term.

4. Therefore it seems that with regard to the adoption of the *acquis communautaire*, irrespective of the situation of each country with regard to the economic criteria for membership, that the difference between the “ins” and “pre-ins” is not very important, as is moreover shown by the screening. This aspect underlines the global and inclusive character of the accession process. In fact, when, at the appropriate moment, the European Union decides to extend the negotiations to new candidate countries they will not have great difficulty in integrating into the ongoing negotiations at a comparable level of preparation. It is important to ensure that the Europe Agreement bodies – which remain the basis of the Union’s relations with each candidate country – continue to be the privileged framework within which the adoption of the *acquis communautaire* is regularly examined.
5. The evaluation of the situation in Turkey according to the same criteria as for the countries of central and eastern European reveals a singularity of this candidate country with regard to the political criteria for membership. The European Union is willing to develop its assistance for country in its economic reform and the adoption of the *acquis communautaire* in the framework of the European strategy. But it is the sole responsibility of Turkey to improve the situation with regard to the pressing need to reinforce democracy and to protect human and minority rights.
6. The confirmation by Malta of its wish to rejoin the other candidate countries in the accession process, which can only be favourably received, should be followed up in the coming months on the basis of the early updating of the 1993 Opinion on the extension of negotiations to this country.
7. The European Conference should at this stage continue to provide the overarching framework for the enlargement exercise, bringing together the Member States and the candidate countries. Widening the scope and nature of the Conference too early could lead to overlapping with other international bodies, thus reducing the value of the Conference while at the same time diluting the enlargement process.
8. In conclusion, whatever the place of the candidate countries in the accession process and in the negotiations, the major lesson of the reports transmitted to the European Council is that the rhythm of preparation for accession must accelerate if deadlines are to be met. The preparatory measures undertaken must determine for now, the assistance of the Union to these countries and, subsequently, the timetable of the first accessions. It is therefore necessary to guarantee the most objective possible measurement of the progress of each candidate for membership. This is why the Commission intends to submit further progress reports to the Council at the end of next year to allow it, if appropriate, to take decisions on the conduct or extension of the negotiations.