

Agenda 2000 of the European Commission (III): Summary and conclusions of the opinions of the Commission concerning the applications for accession (15 July 1997)

Caption: On 16 July 1997, the European Commission delivers its opinion on the applications for accession to the European Union in its Communication Agenda 2000, which gives the summaries and conclusions of these opinions.

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Agenda 2000 - summary and conclusions of the opinions of the Commission concerning the applications for membership to the European Union presented by the candidate countries

- Bulgaria
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Bulgaria

Bulgaria submitted its application for membership of the European Union on 14 December 1995. Its request is part of the historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Bulgaria's request for membership.

Bulgaria's preparation for membership is going forward notably on the basis of the **Europe Agreement** which entered into force in February 1995.

The Bulgarian government has attached importance to implementation of the **White Paper** of May 1995 on the Internal Market, another essential element of the pre-accession strategy putting in place in May 1996 an implementation programme.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgement on these three groups of criteria - political, economic, and the ability to take on the *acquis* -

depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

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1. Political Criteria

Bulgaria has democratic institutions whose stability seems now secure. They need to be reinforced by fuller respect in practice for the rule of law, at all levels of public administration. Elections are free and fair and led to alternation of power in 1994 and 1997.

Some gaps remain in respect for fundamental rights, though the new government elected in April 1997 has announced a series of positive reforms. Considerable efforts are needed to pursue the fight against corruption, to improve the operation of the judicial system and to protect individual liberties in the face of too frequent abuses by the police and secret services.

The Turkish minority seems well integrated, but this is not so for the Roma.

The current improvement following the arrival in power of a new government permits the conclusion that Bulgaria is on the way to satisfying the political criteria set by the Copenhagen European Council.

2. Economic Criteria

Despite some first steps taken in 1991, Bulgaria is still only at the start of the process of structural transformation. The new government has clearly undertaken to the IMF, the World Bank, and the European Commission, that it will set in train rapid reforms in order to free prices and start privatisation. This policy should permit recovery from the situation created by the crisis of recent months which saw a negative growth (-10.9% of GDP in 1996), worsening public deficits, hyper-inflation (311% in 1996) and depreciation of the currency.

Bulgaria has a population of 8.3 million and its GDP per capita is 24% of the EU average. The agricultural sector employs more than 20% of the working population and provides 13% of the Gross Value Added. It still has severe structural difficulties despite recent privatisation. Trade with the EU has grown significantly and now represents 35% of Bulgaria's external trade.

On the basis of its analysis, the Commission's judgement as to **Bulgaria's ability to meet the economic criteria** established at Copenhagen is as follows:

Bulgaria's progress in the creation of a **market economy** has been limited by the absence of a commitment to market-oriented economic policies. Early liberalisation of trade and prices was partially reversed, and price controls were not removed until this year. It is only since the crisis at the end of last year, and the recent change of government that consensus about the desirability of economic reforms has begun to develop.

Bulgaria will not be able to cope with **competitive pressure and market forces within the Union** in the medium term. If the authorities can translate their renewed commitment to economic transition into successful and sustained action, a turnaround in Bulgaria's prospects is possible. However, the country has been set back by six largely wasted years. Incomplete land reform has hampered the emergence of a modern

agricultural sector; slow privatisation and economic instability have weakened state enterprises and delayed the development of a dynamic private sector.

3. Capacity to take on the obligations of membership

Bulgaria's ability to take on the *acquis* has been evaluated according to a number of indicators:

- the obligations set out in the Europe Agreement, particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

Bulgaria has made considerable efforts to meet its obligations under the Europe Agreement. The Agreement has been implemented without major problems and according to the timetable for implementation set out in it. Most of the problems related to implementation have been resolved. But the weakness of the national coordination mechanisms has prevented full exploitation of its potential. The new government has decided to reinforce these structures. Bulgaria has an unsatisfactorily low rate of transposition of the rules and the directives set out in the White Paper.

Bulgarian legislation only incorporates a small part of the *acquis* for the fundamental elements of the **single market**, except for certain aspects of free circulation of goods. The scale of progress to be achieved requires very substantial and sustained efforts both in approximation of legislation and in creation of structures enabling it to be implemented. Complete restructuring of the financial sector, in order to re-establish public and investor confidence in it, is among the highest priorities, and the government recognises this.

The weakness of public administration is a major problem, putting in question both the rate and the quality of approximation of legislation. The various structures needed to apply the legislation on the single market are not currently capable of playing their roles.

As for the other **parts of the *acquis*** Bulgaria should not have particular difficulty in applying the *acquis* in the medium term, provided it maintains its current transposition and modernisation efforts, in the following sectors: education, training and youth; research and technological development; fisheries; small and medium enterprises; international trade relations; and development.

By contrast Bulgaria will need to make substantial efforts in order to apply the *acquis* in the fields of telecommunications (particularly price structures), audio-visual, taxation, statistics, consumer protection and customs.

Integration into the European market could pose serious difficulties for Bulgarian **industry** in the medium term. Many sectors still face important re-structuring and privatisation needs.

For the **environment**, very important efforts will be needed including massive investment and strengthening of administrative capacity to enforce legislation. Full compliance with the *acquis* could be expected only in the very long term and would require increased levels of public expenditure.

Bulgaria has made some progress in meeting the **transport *acquis***, but serious recent difficulties have held this process back. It must accelerate its efforts in particular in the maritime, air and road freight sectors. Bulgaria must also provide the investment necessary for extending the European transport network, which is an essential element for the effective operation of the single market.

Bulgaria still needs to make substantial efforts to align its procedures in **employment and social affairs** with EU standards. Progress is needed in particular on labour law and the structure of the labour inspectorate, since these have neither formal autonomy nor the necessary means to fulfil their role properly.

For **regional policy**, Bulgaria will have to achieve significant preparatory steps, in particular on financial control and the coordination of the different actors involved in policy in this field, before it can effectively use structural funds.

Bulgaria must put in place fundamental reforms of its **agricultural** sector before it can meet the obligations of accession. Considerable progress is needed on restructuring of the sector; on the agrifood industry; on agricultural policies and on health and quality controls. A particular effort will be needed on the administrative structures responsible for administering the CAP.

For **energy**, increased efforts must be achieved to prepare for accession, in particular on monopoly operations, price fixing and state intervention in the solid fuel sector. Bulgaria has a nuclear power station at Kozloduy, which produces around 40% of the country's electricity. It must in the medium term modernise the units for which this is possible, so that they meet internationally accepted standards; and keep its undertaking to close those which cannot be modernised according to the conditions set in the 1993 Agreement. Bulgaria must make a number of modifications to its legislation to comply with Community rules in the nuclear sector and to respect international regimes.

On the basis of the analysis of its capacity to apply the *acquis*, it is not yet possible to be sure when Bulgaria could become able to take and implement the measures necessary to remove the controls at **borders** between Bulgaria and member states of the Union.

Bulgarian participation in the third stage of **economic and monetary union**, which implies coordination of economic policy and complete liberalisation of capital movements, poses serious problems in current circumstances, given the substantial structural reforms which still need to be achieved. It is premature to judge whether Bulgaria will be in a position, by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are, however, not a condition for membership.

Bulgaria faces a particular challenge in justice and home affairs, given the serious difficulties which it faces in these sectors. Only by considerably improving the efficiency of the institutions responsible for action in these fields will Bulgaria become able to apply the *acquis*.

Bulgaria should be able to fulfil its obligations under the **common foreign and security policy**.

It has considerably improved its relations with its neighbours and settled almost all its disputes with them.

4. Administrative and legal capacity

Bulgaria's administrative structures will need a major and sustained effort of reform if it is to become able to apply the *acquis* effectively.

The capacity of the judicial system to ensure uniform application of Community law is of importance for achieving the single market. It is difficult in current circumstances to judge Bulgaria's prospects in this sector.

Conclusion

In the light of these considerations, the Commission concludes that :

- the current improvement in Bulgaria, following the arrival in power of a new government, indicates that Bulgaria is on its way to satisfy the political criteria;
- Bulgaria's progress in the creation of a market economy has been limited by the absence of a commitment to market-oriented economic policies; it would not be able to cope with competitive pressure and market

forces within the Union in the medium term; but it would still face serious difficulties to cope with competitive pressure and market forces within the Union in the medium term;

- despite the progress that has been made, Bulgaria has neither transposed nor taken on the essential elements of the *acquis*, particularly as regards the internal market. It is therefore uncertain whether Bulgaria will be in a position to assume the obligations of membership in the medium term. In addition, considerable efforts will be needed in the areas of environment, transport, energy, justice and home affairs as well as agriculture. More generally, substantial administrative reform will be indispensable if Bulgaria is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission considers that negotiations for accession to the European Union should be opened with Bulgaria as soon as it has made sufficient progress in satisfying the conditions of membership defined by the European Council in Copenhagen.

The reinforced pre-accession strategy will help Bulgaria to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in the Opinions. The Commission will present a report no later than the end of 1998 on the progress Bulgaria has achieved.

Estonia

Estonia submitted its application for membership of the European Union on 24 November 1995. Its request is part of a historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Estonia's request for membership.

Estonia's preparation for membership is going forward notably on the basis of the **Free Trade Agreement** which entered into force on 1 January 1995. The European Union and Estonia signed a **Europe Agreement** on 12 June 1995. Once the ratification procedures are complete and it enters into force, it will supersede the Free Trade Agreement. Implementation of the **White Paper** of May 1995 on the Internal Market, another essential element of the pre-accession strategy, is going ahead on the basis of an Action Plan drawn up by the government in June 1996. The government has put in place the necessary mechanisms to coordinate its policies for European integration.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgment on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and

reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

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1. Political Criteria

Estonia's political institutions function properly and in conditions of stability. They respect the limits on their competences and cooperate with each other. Elections in 1992 and 1995 were free and fair, and in the latter case led to an alternation of power. The Opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judicial system and to intensify the fight against corruption need to be sustained.

There are no major problems over respect for fundamental rights. But Estonia needs to take measures to accelerate naturalisation procedures to enable the Russian-speaking non-citizens to become better integrated into Estonian society.

Estonia presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law and human rights.

2. Economic Criteria

After a sharp contraction of output immediately following independence, the economy has been growing since the second half of 1993 (4.0% in 1996). The government has more or less maintained a principle of balanced budgets in public finances. External debt is low, though Estonia runs a high trade deficit. Inflation rates have declined over recent years, but still stood at 23.1% in 1996. GDP per head is about 23% of the EU average, for a population of 1.5 million. The agricultural sector employs 8% of the labour force, and accounts for 7% of Gross Value Added. 54% of Estonia's exports are directed to the EU, and 66% of its imports originate in the EU.

On the basis of its analysis, the Commission's judgment as to **Estonia's ability to meet the economic criteria** established at Copenhagen is as follows:

Estonia can be regarded as a functioning **market economy**. It has liberalised foreign trade and privatised the public sector. Prices have been liberalised to a very large extent. The currency board system and the prudent fiscal stance have helped to reduce inflation. The legislative framework is largely in place. But land reform has been slow, and reform of the pension system has not yet started.

Estonia should be able to make the progress necessary to cope with **competitive pressures and market forces** within the Union in the medium term, provided in particular that the export base is broadened. The settings of a low exchange rate and low unit labour cost have facilitated the switch to light manufacturing industry as a source of foreign reserves. The banking sector is healthy and expanding strongly. Estonia has been a major recipient of foreign direct investment, although the inflow has decreased recently. But the export base is rather narrow, and the need to finance rising trade and current account deficits is a matter for concern.

3. Capacity to take on the obligations of membership

Estonia's ability to take on the *acquis* has been evaluated according to several indicators:

- the obligations set out in the Europe Agreement (even though this has not yet entered into force), particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;

- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

Estonia has already made serious efforts to apply some of the obligations which will come into effect with the Europe Agreement, even before this has entered into force. It is meeting its obligations under the Free Trade Agreement, and according to the timetable for implementation set out in it. No serious bilateral problems have arisen. Estonia has also adopted significant elements of the *acquis* relating to the **single market**, and has made a good start in transposing the rules and directives set out in the White Paper. In the fields of company law, accounting, data protection and capital liberalisation, it is well on the way to putting in place the necessary legislative foundation. There is still substantial work to be done on public procurement, intellectual property, financial services, taxation and competition (especially the transparency of state aids).

Despite the progress achieved in the field of legislation, there are doubts about the capacity of the Estonian administration to implement this legal framework. But the present significant weaknesses should be temporary, given the high quality of existing staff.

As for the **other aspects of the *acquis***, Estonia should not have difficulty in applying it in the medium term in the following fields: education, training and youth; research and technological development; audio-visual; small and medium enterprises; trade and international economic relations; and development.

By contrast, substantial efforts will be needed in the fields of statistics; fisheries; consumer protection; and customs.

Estonia has made good progress in industrial restructuring. Provided that current efforts are maintained, its **industry** should be able to cope with integration into the single market in the medium term.

Estonia has moved quickly to liberalise its **telecommunications**. Provided that current efforts at liberalisation and transposition of laws are maintained, it should be able to apply the *acquis* in the medium term.

For the **environment**, very substantial efforts will be needed, including massive investment and strengthening of administrative capacity to enforce legislation. Partial compliance with the *acquis* could be achieved in the medium term. Full compliance could be achieved only in the long term.

Estonia has made progress in taking on the *acquis* in the **transport** sector, but needs to make improvements in the road freight and maritime sectors, and pay particular attention to safety issues. Provided this is achieved, accession in the medium term should not pose major problems. But investment will be needed to extend the European transport network so as to ensure that the single market functions well.

It should be possible for Estonia to apply the **employment and social affairs *acquis*** in the medium term, provided that it works to align its legislation with EU standards eg for health and safety and labour law.

In the field of **regional policy and cohesion**, provided that Estonia creates the necessary administrative and budgetary framework, and takes the steps necessary to create adequate structures of financial control, it should be able in the medium term to use regional and structural funds to support its development effectively.

The **agriculture** sector needs restructuring, and only a limited number of the mechanisms of the common agricultural policy presently exist. A substantial effort will be needed to prepare for accession in the medium term.

In the field of **energy**, Estonia has no nuclear energy programme, so no difficulties are foreseen for Estonia

to comply with Euratom provisions. Estonia should be able to comply with most of the energy *acquis* in the medium term, provided that work is maintained on monopolies, access to networks, energy pricing and restructuring of the oil shale industry.

On the basis of the analysis of Estonia's capacity to apply the *acquis*, it is not yet possible to be sure when it could become able to take and implement the measures necessary to remove the controls at **borders** between Estonia and member states of the Union.

Estonia's participation in the third stage of **economic and monetary union**, which implies coordination of economic policy and complete liberalisation of capital movements, should pose few problems in the medium term. It is premature to judge whether Estonia will be in a position, by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are, however, not a condition for membership.

In **justice and home affairs**, Estonia has started from a low base and made encouraging progress, notably in the field of border control. But a major, sustained effort will be needed if it is to meet the *acquis* in the medium term.

Estonia should be able to fulfil its obligations in respect of the **common foreign and security policy**.

In addition, Estonia has no territorial disputes with Member States or neighbouring candidate countries. Estonia gives high priority to its relationship with Russia, and has achieved important progress, though there is still no border agreement between them.

4. Administrative and Legal Capacity

For Estonia to have in the medium term the administrative structures necessary for the essential work of applying and enforcing the *acquis* effectively, there will need to be a major effort of reform.

It is not yet possible to judge when Estonia's judicial system, which has an equally important role to play, will acquire the capacity to play it effectively, even though Estonia has recently undertaken an extensive programme of recruitment of new judges.

Conclusion

In the light of these considerations, the Commission concludes that:

- Estonia presents the characteristics of a democracy, with stable institutions, guaranteeing the rule of law, human rights and respect for and protection of minorities. But measures need to be taken to accelerate naturalisation of Russian-speaking non-citizens, to enable them to become better integrated into Estonian society;
- Estonia can be regarded as a functioning market economy, and it should be able to make the progress necessary to cope with competitive pressure and market forces within the Union in the medium term;
- Estonia has made considerable progress in transposing and implementing the *acquis* relating particularly to the single market. With further effort it should become able to participate fully in the single market in the medium term. Particular efforts, including investment, will be needed to apply the *acquis* fully in sectors such as environment. Strengthening of the administrative structure will be indispensable if Estonia is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission recommends that negotiations for accession should be opened with Estonia.

The reinforced pre-accession strategy will help Estonia to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in this Opinion. The Commission will present a report no later than the end of 1998 on the progress Estonia has achieved.

Hungary

Hungary submitted its application for membership of the European Union on 31 March 1994. Its request is part of the historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Hungary's request for membership.

Hungary's preparation for membership is going forward notably on the basis of the **Europe Agreement** which entered into force on 1 February 1994. Implementation of the **White Paper** of May 1995 on the Internal Market, another essential element of the pre-accession strategy, is going ahead on the basis of a Plan agreed by the government in December 1995 and revised in 1997. The government has put in place the necessary mechanisms to coordinate its policies for European integration.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgement on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

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1. Political Criteria

Hungary's political institutions function properly. They respect the limits on their competences and cooperate with each other. Elections are free and fair and led to alternation of power in 1990 and 1994. The opposition plays a normal part in the operation of the institutions.

There are no major problems over respect for fundamental rights. The rights of minorities are guaranteed and protected. Certain improvements are still needed in the operation of the judicial system and in protection for the Roma, but the measures recently taken by the government constitute progress. The fight against

corruption needs further reinforcement.

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

2. Economic Criteria

After a fall in GDP of nearly 20% between 1989 and 1993, Hungary has seen renewed growth since 1994 (1.5% in 1995, 1% in 1996). This has been accompanied by progress towards stabilisation of public finances, external accounts and inflation (19.8% in 1996). Hungary has 10.2 million inhabitants and its GDP per capita is equivalent to 37% of the EU average. 8% of the working population are employed in the agricultural sector which contributes 7% of gross value added. Trade with the EU has grown considerably since 1989 and now represents 60% of Hungary's external trade.

On the basis of its analysis the Commission's judgement as to **Hungary's ability to meet the economic criteria** established at Copenhagen is as follows:

Hungary can be regarded as a **functioning market economy**. Liberalisation and privatisation have progressed considerably, and there has been strong growth of new private firms. In order to guarantee longer term stability, the reform of pensions and social security needs to advance rapidly. The proposed method of pension reform would have the added benefit of deepening capital markets.

Hungary should be well able to cope with **competitive pressure and market forces within the Union** in the medium term, provided the macroeconomic conditions for strong investment growth remain in place. Hungarian enterprises are already competitive in EU markets. Restructuring of industry and banks is well underway. Hungary's record of consistent commitment to steady market reforms and its ability to take difficult decisions when they are necessary is an important positive factor. It has had a consistently high level of foreign direct investment. However, the key task is now to avoid unsustainable budgetary or external deficits, which hinder investment and restructuring, and halt the recent acceleration of growth.

3. Capacity to take on the obligations of membership

Hungary's ability to take on the *acquis* has been evaluated according to a number of indicators:

- the obligations set out in the Europe Agreement, particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

Hungary has met the bulk of its obligations under the Europe Agreement, and the timetable set out in the Agreement has been met. The Agreement has functioned very well and it has been possible to resolve any bilateral difficulties which have arisen, in particular in the field of trade. Hungary has achieved a good rate of transposition of the rules and directives set out in the White Paper.

For the whole field related to the **single market**, and in particular competition, public procurement, intellectual property, company and accounting law, taxation, product liability, financial services, the legislative foundation is almost completely in place.

Despite the efforts undertaken, the progress made in transposing legislation still needs to be accompanied by concrete measures of implementation, as well as establishment of an effective administrative underpinning. Hungary has some instruments which operate correctly (for instance in the field of public procurement, appeal procedures set out in the directives are applied and court cases have been started) but substantial efforts are still needed in a number of sectors, notably standardisation.

As for the **other parts of the *acquis***, Hungary should not have difficulty in applying it in the medium term, provided it continues its current preparation for accession in the following fields: education, training and youth; research and technological development; telecommunications; audio-visual; small and medium enterprises; international trade relations, and development.

By contrast substantial efforts will be needed for Hungary to be able to apply the *acquis* in consumer protection and customs controls.

Given the extent of restructuring and modernisation efforts undertaken so far, there are good reasons to expect that most sectors of Hungarian **industry** in the medium term can be competitive operators in the single market.

For the **environment**, very important efforts will be needed, including massive investment and strengthening of administrative capacity for enforcement of legislation. Full compliance with the *acquis* could only be expected in the long to very long term and would necessitate increased levels of public expenditure.

Hungary has already made considerable progress on taking on the **transport*acquis***. If it continues its efforts on road transport and technical controls this sector should not pose significant difficulties. Hungary will need to provide the investment necessary to extend the European transport network in order to ensure effective operation of the single market.

Hungary should also be able in the medium term to apply the *acquis* on **employment and social affairs** but efforts are still needed to improve the health system and apply EU health and safety at work standards. Hungary already has an effective labour inspectorate.

For **regional policy** Hungary has adopted a regional development policy which, if implemented, should permit it in the medium term to apply Community rules and make effective use of structural funds. Hungary will also need the necessary financial control instruments.

In the **agriculture** sector if progress is made in the veterinary and phytosanitary fields, and if the structures needed in the agrifood sector and for applying the CAP are reinforced, membership in the medium term should not pose significant problems for Hungary in applying the CAP in an appropriate manner.

For **energy** efforts are still needed in respect of monopoly operations, price fixing, access to networks and state intervention in the solid fuel and uranium sectors. Hungary has a nuclear power station at Paks which produces nearly 40% of the country's electricity. It needs to modernise this in the medium term in order to bring it up into internationally accepted safety standards. It will also need to find a solution for nuclear waste.

On the basis of the analysis of its capacity to apply the *acquis*, Hungary could be in a position in the medium term to take and implement the measures necessary for removal of controls at its **borders** and establishment of these at the Union's external border.

Hungary should be in a position to participate at the appropriate time in the third stage of **economic and monetary union**, which implies coordination of economic policy and complete liberalisation of capital movements. But it is premature to judge whether Hungary will be in a position, by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are, however, not a condition for membership.

Hungary should be able to meet the **justice and home affairs*acquis*** in the next few years, even though particular attention will need to be paid to frontier controls, treatment of asylum seekers, visa policy and the fight against organised crime. Hungary has indicated a wish to join the Schengen Agreements.

Hungary should be able to fulfil its obligations in respect of the **common foreign and security policy**.

In addition, Hungary has reinforced its relations with its neighbours since 1989, and has signed Friendship and Good Neighbourliness Agreements with them recognising existing frontiers and resolving almost all the potential disputes with them. It has played an important role in regional stability.

4. Administrative and Legal Capacity

If Hungary pursues the administrative reforms which have already been started, the necessary structures could be in place in the medium term to apply the *acquis* effectively.

The capacity of the judicial system to ensure uniform application of Community law is of great importance, particularly for the implementation of the single market. If Hungary pursues its efforts, the judicial system should be capable of applying Community law in the medium term.

Conclusion

In the light of these considerations, the Commission concludes that:

- Hungary presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities;
- Hungary can be regarded as a functioning market economy and it should be able to cope with competitive pressure and market forces within the Union in the medium term;
- if Hungary continues its efforts on transposition of the *acquis* relating particularly to the single market, and intensifies its work on its implementation, Hungary should become capable in the medium term of applying it fully. In addition, particular efforts will be needed to meet the *acquis* in sectors such as environment, customs control and energy. More generally, further administrative reform will be indispensable if Hungary is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission recommends that negotiations for accession should be opened with Hungary.

The reinforced pre-accession strategy will help Hungary to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in the Opinions. The Commission will present a report no later than the end of 1998 on the progress Hungary has achieved.

Latvia

Latvia submitted its application for membership of the European Union on 27 October 1995. Its request is part of a historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Latvia's request for membership.

Latvia's preparation for membership is going forward notably on the basis of the **Free Trade Agreement** which entered into force on 1 January 1995. The European Union and Latvia signed a **Europe Agreement** on 12 June 1995. Once the ratification procedures are complete and it enters into force, it will supersede the Free Trade Agreement. Implementation of the **White Paper** of May 1995 on the Internal Market, another essential element of the pre-accession strategy, is going ahead on the basis of a National Programme adopted by the government in December 1996. The government has put in place the necessary mechanisms to coordinate its policies for European integration.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgment on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

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1. Political Criteria

Latvia's political institutions function properly and in conditions of stability. They respect the limits on their competences and cooperate with each other. Elections in 1992 and 1995 were free and fair, and in each case permitted the establishment of coalition governments. The Opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judicial system and to intensify the fight against corruption need to be sustained.

There are no major problems over respect for fundamental rights. But Latvia needs to take measures to accelerate naturalisation procedures to enable the Russian speaking non-citizens to become better integrated into Latvian society. It should also pursue its efforts to ensure equality of treatment for non-citizens and minorities, in particular for access to professions and participation in the democratic process. Latvia demonstrates the characteristics of a democracy, with stable institutions guaranteeing the rule of law and human rights.

2. Economic Criteria

In the first three years after independence Latvia's output declined by 50%. First signs of recovery in 1994 were undermined by a banking and budget crisis the following year; but growth turned positive again in 1996 (2.8%). Since 1995 the current government has conducted a tight fiscal policy, though revenue collection is still a problem. The foreign debt ratio remains low, but Latvia has a high trade deficit. Inflation rates have declined over recent years, but still stood at 17.6% in 1996. GDP per head is about 18% of the EU average, for a population of 2.5 million. The agricultural sector employs 18% of the labour force, and accounts for 9.9% of Gross Value Added. 45% of Latvia's exports are directed to the EU, and 50% of its imports originate in the EU.

On the basis of its analysis, the Commission's judgment as to **Latvia's ability to meet the economic**

criteria established at Copenhagen is as follows:

Latvia has made considerable progress in creating a **market economy**. Trade and prices have largely been liberalised. Much headway has been made in stabilising the economy. While there has been significant progress in establishing the legislative framework, effective implementation is lagging behind. Also, not all the necessary regulatory bodies are in place or working properly. Privatisation is not complete; the remaining state-owned companies are generally in poor financial condition and there is a shortage of investors.

Latvia would face serious difficulties to cope with **competitive pressure and market forces** within the Union in the medium term. The Latvian economy is relatively open and labour costs are low. However, exports consist mainly of low value-added goods. Industrial restructuring, as well as enterprise restructuring, is still needed. The banking sector is underdeveloped and weak in parts. Agriculture needs to be modernised.

3. Capacity to take on the obligations of membership

Latvia's ability to take on the *acquis* has been evaluated according to several indicators:

- the obligations set out in the Europe Agreement (even though this has not yet entered into force for Latvia), particularly those relating to the right of establishment,
- national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

Even before the Europe Agreement has entered into force, Latvia has made significant efforts to comply with some of the obligations which will come into effect with it. Latvia is meeting its obligations under the Free Trade Agreement, and according to the timetable for implementation set out in it. No serious bilateral problems have arisen. Latvia has also made some efforts towards compliance with the essential **single market** legislation. It has made progress in the areas of banking, industrial property rights, conformity assessment and standards and commercial law. But further work needs to be done on intellectual property rights, public markets, personal data, competition (especially the transparency of state aids), taxation and other areas.

A problem for further progress may be the weakness of the Latvian public administration, which affects not only the pace of approximation of legislation but also the quality of its implementation and enforcement.

As for **the other parts of the *acquis***, Latvia should not have significant difficulty in applying it in the medium term in the following fields: education, training and youth; research and technological development; telecommunications; audio-visual; fisheries; small and medium enterprises; trade and international economic relations; and development.

By contrast, substantial efforts will be needed in the fields of statistics and customs.

Provided that Latvia maintains current positive trends towards industrial restructuring, its **industry** should be able to cope with integration into the single market in the medium term.

For the **environment**, very substantial efforts will be needed, including massive investment and strengthening of administrative capacity to enforce legislation. Full compliance with the *acquis* could only be expected in the long term and would require increased levels of public expenditure.

Latvia has made real progress in the field of **transport**, especially air transport. Provided efforts are made in road transport, rail and sea transport, no major problems are to be expected in applying the *acquis* relating to

the single market. But investment will be needed to extend the European transport network so as to ensure that the single market functions well.

It should be possible for Latvia to achieve the **employment and social affairs *acquis*** in the medium term, provided that Latvia makes substantial efforts to adapt its legislation to EU requirements in fields such as health and safety and labour law.

Latvia has opted to pursue its **regional policy** within the framework of its national development strategy. Given the necessary administrative reforms, and establishment in parallel of effective systems of financial control, Latvia should become able to use the Union's regional and structural funds for its development effectively.

The **agriculture** sector needs restructuring, and only a limited number of the mechanisms of the common agricultural policy currently exist. A substantial and sustained effort will be required to prepare for accession in the medium term.

In the **energy** field, Latvia has no nuclear power programme, and no difficulties are foreseen for Latvian compliance with Euratom provisions. But work will be needed to prepare to meet the *acquis* in the fields of energy pricing, access to networks, energy efficiency and environmental norms.

On the basis of the analysis of Latvia's capacity to apply the *acquis*, it is not yet possible to be sure when it could become able to take and implement the measures necessary to remove the controls at **borders** between Latvia and member states of the Union.

Latvia's participation in the third stage of **economic and monetary union**, which implies coordination of economic policy and complete liberalisation of capital movements, still poses problems in the medium term. It is premature to judge whether Latvia will be in a position, by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are, however, not a condition for membership.

In the field of **justice and home affairs**, Latvia is starting from a low base and faces considerable difficulties in preparing itself. A major and sustained effort will be needed if Latvia is to be ready to meet the *acquis* in the medium term.

Latvia should be able to fulfil its obligations in respect of the **common foreign and security policy**.

In addition, Latvia has no major territorial disputes with any Member State or candidate country. Latvia has set development of good relations with Russia as a major priority of its foreign policy, and has achieved important progress.

4. Administrative and legal capacity

For Latvia to have in the medium term the administrative structures necessary for the essential work of applying and enforcing the *acquis* effectively, there will need to be a major, reinforced effort of reform.

The same applies to Latvia's judicial system, which has an equally important role to play.

Conclusion

In the light of these considerations, the Commission concludes that:

- Latvia presents the characteristics of a democracy, with stable institutions, guaranteeing the rule of law, human rights and respect for and protection of minorities. But measures need to be taken to accelerate the rate of naturalisation of Russian-speaking non-citizens to enable them to become better integrated into Latvian society;

- Latvia has made considerable progress in the creation of a market economy, but it would face serious difficulties to cope with competitive pressure and market forces within the Union in the medium term;

- Latvia has made some progress in transposing and implementing the *acquis* relating particularly to the single market. With considerable further effort it should become able to participate fully in the single market in the medium term. Particular efforts, including investment, will be needed to apply the *acquis* fully in sectors such as environment and agriculture. Strengthening of the administrative structure is indispensable if Latvia is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission considers that negotiations for accession to the European Union should be opened with Latvia as soon as it has made sufficient progress in satisfying the conditions of membership defined by the European Council in Copenhagen.

The reinforced pre-accession strategy will help Latvia to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in this Opinion. The Commission will present a report no later than the end of 1998 on the progress Latvia has achieved.

Lithuania

Lithuania submitted its application for membership of the European Union on 8 December 1995. Its request is part of a historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Lithuania's request for membership.

Lithuania's preparation for membership is going forward notably on the basis of the **Free Trade Agreement** which entered into force on 1 January 1995. The European Union and Lithuania signed a **Europe Agreement** on 12 June 1995. Once the ratification procedures are complete and it enters into force, it will supersede the Free Trade Agreement. Implementation of the **White Paper** of May 1995 on the Internal Market, another essential element of the pre-accession strategy, is going ahead on the basis of a National Legislation Harmonisation Programme adopted in September 1996. The government has put in place the necessary mechanisms to coordinate its policies for European integration.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgment on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and

reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

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1. Political Criteria

Lithuania's political institutions function properly and in conditions of stability. They respect the limits on their competences and cooperate with each other. Elections in 1992 and 1996 were free and fair, and in each case permitted an alternation of power in proper conditions. The Opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judicial system and to intensify the fight against corruption need to be sustained.

There are no major problems over respect for fundamental rights.

Lithuania demonstrates the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities.

2. Economic Criteria

In the first three years after independence there was a very serious decline in output. It was halted only by the introduction of a new currency and the establishment of a currency board in 1993/94. Since then there have been increasing rates of positive growth every year (3.6% in 1996), despite the banking crisis in 1995. Despite reduced tax revenues, Lithuania has maintained a reasonably tight fiscal stance. Foreign debt is at modest levels, and the trade deficit is under control. Inflation is down from very high levels in 1992/93 to 24.6% in 1996. GDP per head is about 24% of the EU average, for a population of 3.7 million. The agricultural sector employs 24% of the labour force, and accounts for 9% of Gross Value Added. The EU is Lithuania's largest trading partner, taking 37% of total trade.

On the basis of its analysis, the Commission's judgment as to **Lithuania's ability to meet the economic criteria** established at Copenhagen is as follows:

Lithuania has made considerable progress in the creation of a **market economy**. Trade and prices have been largely liberalised, and considerable progress has been achieved in the area of macroeconomic stabilisation. However, further progress is needed, particularly in the areas of relative price adjustments, large-scale privatisation and bankruptcy proceedings. The main element still missing is the enforcement of financial discipline for enterprises.

Lithuania would face serious difficulties to cope with **competitive pressure and market forces** within the Union in the medium term. The marked recent improvement in policy would, if sustained, accelerate the establishment of a market economy and strengthen competitiveness. But substantial enterprise restructuring is still required. Agriculture needs to be modernised, and the banking sector is still weak.

3. Capacity to take on the obligations of membership

Lithuania's ability to take on the *acquis* has been judged according to several indicators:

- the obligations set out in the Europe Agreement (even though this has not yet entered into force for Lithuania), particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;

- progressive transposition of the other parts of the *acquis*.

Even before the Europe Agreement has entered into force, Lithuania has made significant efforts to comply with some of the obligations which will come into effect with it. It is meeting its obligations under the Free Trade Agreement, and according to the timetable for implementation set out in it. No serious bilateral problems have arisen. Lithuania has also made some progress towards compliance with the essential **single market** legislation. It has made progress in the areas of company law, data protection and accounting. But further work needs to be done on intellectual property rights, public markets, liberalisation of capital markets, financial services, taxation, competition and other areas.

A problem for further progress may be the weakness of the Lithuanian public administration, which affects not only the pace of approximation of legislation but also the quality of its implementation and enforcement.

As for **the other parts of the *acquis***, Lithuania should not have significant difficulty in applying it from the date of accession in the following fields: education, training and youth; research and technological development; audio-visual; small and medium enterprises; trade and international economic relations; and development.

By contrast, substantial efforts will be needed in the fields of telecommunications; statistics; fisheries; and customs.

Provided that currently positive trends towards industrial restructuring and privatisation continue, most of Lithuanian **industry** should be able to cope with integration within the single market in the medium term.

For the **environment**, very substantial efforts will be needed, including massive investment and strengthening of administrative capacity to enforce legislation. Full compliance with the *acquis* could only be expected in the long term and would require increased levels of public expenditure.

Lithuania should not have major problems in applying the **transport *acquis***, provided that attention is given to maritime safety and environmental standards. Investment will be needed to extend the European transport network so as to ensure that the single market functions well.

It should be possible for Lithuania to achieve the **employment and social affairs** *acquis* in the medium term, provided that it makes substantial efforts to adapt its legislation to EU requirements in fields such as health and safety and labour law.

On **regional policy**, Lithuania will need to make the necessary administrative reforms, and establish effective systems of financial control, in order to become able to use the Union's regional and structural funds for its development effectively.

The **agriculture** sector needs restructuring, and only a limited number of the mechanisms of the common agricultural policy currently exist. A substantial and sustained effort will be required to prepare for accession in the medium term.

In the **energy** field, Lithuania is heavily dependent on nuclear power generation. It has committed itself to closing the nuclear plant at Ignalina, and must maintain the agreed timetable for this. In the meantime it must make the necessary short-term adjustments to bring safety procedures to internationally accepted standards. No other major problems are foreseen for Lithuanian accession in this sector, though there is a need for further work on monopolies, access to networks and energy pricing.

On the basis of the analysis of Lithuania's capacity to apply the *acquis*, it is not yet possible to be sure when it could become able to take and implement the measures necessary to remove the controls at **borders** between Lithuania and member states of the Union.

Lithuania's participation in the third stage of **economic and monetary union**, which implies coordination of economic policy and complete liberalisation of capital movements, still poses problems in the medium term.

It is premature to judge whether Lithuania will be in a position, by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are, however, not a condition for membership.

In **justice and home affairs**, Lithuania has made some progress, eg in the field of asylum. But a significant sustained effort will be needed if it is to be ready to meet the *acquis* in the medium term.

Lithuania should be able to fulfil its obligations in respect of the **common foreign and security policy**.

In addition, Lithuania has no major territorial disputes with any Member State or candidate country. It has attached high priority to improving its relations with Poland.

4. Administrative and legal capacity

For Lithuania to have in the medium term the administrative structures necessary for the essential work of applying and enforcing the *acquis* effectively, there will need to be a major, reinforced effort of reform.

It is not yet possible to judge when Lithuania's judicial system, which has an equally important role to play, will acquire the capacity to play it effectively.

Conclusion

In the light of these considerations, the Commission concludes that:

- Lithuania presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities;
- Lithuania has made considerable progress in the creation of a market economy, but it would face serious difficulties to cope with competitive pressure and market forces within the Union in the medium term;
- Lithuania has made some progress in transposing and implementing the *acquis* relating particularly to the single market. With considerable further effort it should become able to participate fully in the single market in the medium term. Particular efforts, including investment, will be needed to apply the *acquis* fully in sectors such as agriculture, energy and environment. Strengthening of the administrative structure is indispensable if Lithuania is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission considers that negotiations for accession to the European Union should be opened with Lithuania as soon as it has made sufficient progress in satisfying the conditions of membership defined by the European Council in Copenhagen.

The reinforced pre-accession strategy will help Lithuania to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in this Opinion. The Commission will present a report no later than the end of 1998 on the progress Lithuania has achieved.

Poland

Poland submitted its application for membership of the European Union on 5 April 1994. Its request is part of the historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Poland's request for membership.

Poland's preparation for membership is going forward notably on the basis of the **Europe Agreement** which entered into force on 1 February 1994. Implementation of the **White Paper** of May 1995 on the Internal

Market, another essential element of the pre-accession strategy, is going ahead on the basis of a National Integration Strategy agreed by the government in January 1997. The government has put in place the necessary mechanisms to coordinate its policies for European integration.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgment on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

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1. Political Criteria

Poland's political institutions function properly and in conditions of stability. They respect the limits on their competences and cooperate with each other. Legislative elections in 1991 and 1993, and presidential elections in 1995, were free and fair. In 1993 and 1995, when they led to alternation of power, this was properly achieved. The Opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judicial system and to intensify the fight against corruption will need to be sustained.

There are no major problems over respect for fundamental rights. There are, however, certain limitations to freedom of the press. Particular attention will be needed to how a new law limiting access to public service for certain categories of persons is implemented. Poland needs to complete procedures for compensating those whose property was seized by the Nazis or Communists.

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

2. Economic Criteria

Before 1989 the Polish economy was suffering seriously from stagnation, inflation and its foreign debt burden. The recovery plan initiated in January 1990 was drastic, but provoked only a limited drop in output (though output had already fallen substantially in the 1980s). By 1992 positive growth had already started, and has continued since (6.0% in 1996). The budget deficit has been reduced to below 3% of GDP; and the debt-servicing burden, after rescheduling was agreed in 1991, is being steadily reduced. Inflation rates have declined over recent years, but still stood at 19.9% in 1996. GDP per head is about 31% of the EU average,

for a population of 38.6 million. The agricultural sector employed 27% of the labour force in 1995, and accounted for 6.6% of Gross Value Added. 70% of Poland's exports are directed to the EU, and 65% of its imports originate in the EU.

On the basis of its analysis, the Commission's judgment as to **Poland's ability to meet the economic criteria** established at Copenhagen is as follows:

Poland can be regarded as a functioning **market economy**. Prices and trade have been liberalised to a large extent. The economy has been successfully stabilised. Commitment to this policy line has been maintained through various changes in government. In order to guarantee longer-term stability, pension and social security systems need to be reformed. Financial services are underdeveloped. The banking sector needs further reform.

Poland should be well able to cope with **competitive pressure and market forces** within the Union in the medium term, provided that it maintains the pace of restructuring and keeps the economy open. Growth and investment are strong, and the rise in unit labour costs in the manufacturing sector has been moderate. Recently, inflows of foreign direct investment have accelerated. The main problem is that of the larger state-owned companies, where management failures in the face of foreign competition could have serious consequences. Agriculture needs to be modernised, and there have been some reversals in trade policy.

3. Capacity to take on the obligations of membership

Poland's ability to take on the *acquis* has been evaluated according to a number of indicators:

- the obligations set out in the Europe Agreement, particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

Poland has already implemented significant elements of the provisions of the Europe Agreement, and for the most part according to the timetable for implementation set out in it. Too many trade-related problems have arisen, though most of them have been able to be resolved. Poland has achieved a satisfactory rate of transposition of the rules and directives identified in the White Paper, though there is still a considerable amount of legislative work left to do.

In respect of provisions relating specifically to the **single market**, substantial progress has been made on intellectual property, company law, taxation, accounting, and financial services. Work is still needed on public procurement, data protection, competition and liberalisation of capital movements.

Notwithstanding the efforts which have been made, the progress made in transposing legislation still needs to be accompanied by concrete measures of implementation, as well as establishment of an effective administrative underpinning. Overall, the administrative infrastructure is either well-established or recently set up and functioning normally. But the work of legislative adaptation is proceeding slowly in the field of technical rules and standards.

As for **the other parts of the *acquis***, Poland should not have difficulty in applying it in the medium term in the following fields: education, training and youth; research and technological development; statistics; small and medium enterprises; development; and customs.

By contrast, substantial efforts will be needed for Poland to be able to apply the *acquis* in the fields of telecommunications; fisheries; and consumer protection.

Polish **industry** is characterised by the existence of both a dynamic new private sector which should be able

to compete in the single market in the medium term, and large sectors, mostly state owned, which need restructuring in order to be able to compete.

For the **environment**, very substantial efforts will be needed, including massive investment and strengthening of administrative capacity to enforce legislation. Full compliance with the *acquis* could be expected only in the long term, and would require increased levels of public expenditure.

For **transport**, Poland made notable progress in taking on the *acquis*, but considerable effort and investment will be needed in road transport. Provided that these efforts are made, the transport sector should not pose major problems in the medium term. But investment will be needed to extend the European transport network so as to ensure that the single market functions well.

In order to achieve the **employment and social affairs** *acquis* in the medium term, work is needed to adapt legislation in the field of health and safety at work.

In the field of **regional policy and cohesion**, if Poland implements the recommendations of its Task Force for Regional Policy, this will be a major step towards achieving the *acquis*. Given the necessary administrative framework, and the substantial improvement needed in the field of financial control, Poland should be able in the medium term to use the Union's regional and structural funds for its development effectively.

For **agriculture**, particular efforts will be needed to establish a coherent structural and rural development policy, and to implement veterinary and phytosanitary requirements and to strengthen the administrative structures necessary to apply the common agricultural policy. Provided these targets can be met, the common agricultural policy could be applied in an appropriate manner on accession in the medium term, although a solution to Poland's structural problems will require a long-term approach.

On **energy**, Poland has no nuclear power programme, and should have no difficulty in complying with the Euratom provisions. Poland should be able to comply with the rest of the energy *acquis* in the medium term, but this will require work on issues such as energy pricing, import barriers for oil products and state intervention in the coal sector.

On the basis of the analysis of its capacity to apply the *acquis*, Poland could be in a position in the medium term to take and implement the measures necessary for removal of controls at **its borders** with member states of the Union.

Poland's participation in the third stage of **economic and monetary union**, which implies coordination of economic policy and complete liberalisation of capital movements, should pose no problems in the medium term. But it is premature to judge whether Poland will be in a position, by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are, however, not a condition for membership.

Poland faces significant challenges in the field of **justice and home affairs**, particularly concerning drugs, border management and transnational crime. Provided that continuing efforts are made, Poland could be able to meet the requirements of the *acquis* in the next few years.

Poland should be able to fulfil its obligations in respect of the **common foreign and security policy**.

In addition, Poland has no territorial disputes with any member state or neighbouring candidate country. All its state frontiers are regulated by Treaty.

4. Administrative and legal capacity

If Poland continues its comprehensive reform efforts in this area it could achieve in the medium term the administrative structures necessary for the essential work of applying and enforcing the *acquis* effectively.

The same applies to Poland's judicial system, which has an equally important part to play.

Conclusion

In the light of these considerations, the Commission concludes that:

- Poland presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities;
- Poland can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium term;
- if Poland continues its efforts on transposition of the *acquis* relating particularly to the single market, and intensifies work on its implementation, Poland should become able to participate fully in the single market in the medium term. Particular effort and investment will be needed to meet the *acquis* in sectors such as agriculture, environment and transport. Further administrative reform will be indispensable if Poland is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission recommends that negotiations for accession should be opened with Poland.

The reinforced pre-accession strategy will help Poland to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in this Opinion. The Commission will present a report no later than the end of 1998 on the progress Poland has achieved.

Czech Republic

The Czech Republic submitted its application for membership of the European Union on 17 January 1996. Its request is part of the historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on the Czech Republic's request for membership.

The Czech Republic's preparation for membership is going forward notably on the basis of the **Europe Agreement** which entered into force on 1 February 1995.

Implementation of the **White Paper** of May 1995 on the Internal Market, another essential element of the pre-accession strategy, is going ahead on the basis of a Plan agreed by the government in the spring of 1996. The government has put in place the necessary mechanisms to coordinate its policies for European integration.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic

and monetary union.

A judgment on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

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1. Political Criteria

The Czech Republic's political institutions function properly and in conditions of stability. They respect the limits on their competences and cooperate with each other. Legislative elections in 1992 and 1996 were free and fair. The Opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judiciary and to intensify the fight against corruption must be sustained.

There are no major problems over respect for fundamental rights. There are, however, some weaknesses in laws governing freedom of the press. Particular attention will need to be paid to the conditions governing any further extension of a law excluding from public service members of the former security services and active members of the communist regime. There is a problem of discrimination affecting the Roma, notably through the operation of the citizenship law.

The Czech Republic presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights, and respect for and protection of minorities.

2. Economic Criteria

After some disruption caused by the separation of the Czech and Slovak Republics in 1993, economic growth resumed in 1994 and has been strongly sustained since, though at a lower rate (4.0%) in 1996. The Czech Republic has maintained tight fiscal policies, but both trade and current account deficits grew in 1996. Inflation has gradually declined over recent years, and stood at 8.8% in 1996. GDP per head is about 55% of the EU average, for a population of 10.3 million. The agricultural sector employed 6% of the labour force in 1995, and accounted for 5% of Gross Value Added. The EU's share of Czech trade has risen from 27% in 1989 (as Czechoslovakia) to 55%.

On the basis of its analysis, the Commission's judgment as to **the Czech Republic's ability to meet the economic criteria** established at Copenhagen is as follows:

The Czech Republic can be regarded as a functioning **market economy**. Market mechanisms operate widely, and the role of the state in the economy has been completely changed. Substantial success has been achieved in stabilising the economy. Unemployment is among the lowest in Europe. However, as the recent emergence of macroeconomic imbalances has shown, further progress will need to be made over the next few years, notably in strengthening corporate governance and the financial system.

The Czech Republic should be able to cope with **competitive pressure and market forces** within the Union in the medium term, provided that change at the enterprise level is accelerated. The country benefits from a trained and skilled workforce, and infrastructure is relatively good. Investment in the economy has been high in recent years, with foreign direct investment also strong. The country has successfully reoriented its trade towards the west. But although the quality of exported goods is improving, their value added is still

low. The banking sector is dominated by a few, partly state-owned banks and its competitive position is not strong. The main challenge for the Czech Republic is to press on with enterprise restructuring in order to improve the medium term performance of the economy and as a way of redressing the imbalances on the external side.

3. Capacity to take on the obligations of membership

The Czech Republic's ability to take on the *acquis* has been evaluated according to several indicators:

- the obligations set out in the Europe Agreement, particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

The Czech Republic has already adopted significant elements of the provisions of the Europe Agreement, and according to the timetable for implementation set out in it. Few serious bilateral problems have arisen, though the Czech imposition in April 1997 of an import deposit scheme was not in conformity with the Agreement. The Czech Republic has achieved a satisfactory rate of transposition of the rules and directives identified in the White Paper, though there is still a considerable amount of legislative work left to do.

For most of the areas relating specifically to the **single market**, the legislative basis is more or less in place. In certain fields, particularly financial services and taxation, further work is still needed.

Notwithstanding the efforts which have been made, the real progress made in transposing legislation still needs to be accompanied by concrete measures of implementation, as well as establishment of an effective administrative underpinning. Overall, the administrative infrastructure is either well-established or recently set up and functioning normally. But substantial further efforts are needed.

As for **the other parts of the *acquis***, the Czech Republic should not have difficulty in applying it from the date of accession in the following fields: education, training and youth; research and technological development; telecommunications; statistics; consumer protection; small and medium enterprises; trade and international economic relations; and development.

By contrast, substantial efforts will be needed for the Czech Republic to be able to apply the *acquis* in the fields of audiovisual, and customs (though efforts are under way in this sector).

Provided that past and current efforts at industrial restructuring and modernisation are continued, and reinforced in the case of heavy industries, most sectors of Czech **industry** should face no major problems to integrate into the single market in the medium term.

For the **environment**, very substantial efforts will be needed, including massive investment and strengthening of administrative capacity to enforce legislation. Partial compliance with the *acquis* could be achieved in the medium term. Full compliance could be achieved only in the long term.

For **transport**, the Czech government has already made notable progress towards meeting the *acquis*. Efforts need to be pursued in respect of road freight transport. But meeting the *acquis* relating to the single market should not pose real problems. Investment will be needed to extend the European transport network so as to ensure that the single market functions well.

In order to apply the **employment and social affairs** *acquis* in the medium term, work is needed to adapt legislation in the field of health and safety at work.

In the field of **regional policy and cohesion**, if the Czech Republic works to establish the necessary

administrative framework and achieve the substantial improvement needed in the field of financial control, it should be able in the medium term to use the Union's regional and structural funds for its development effectively.

For **agriculture**, particular efforts will be needed to implement veterinary and phytosanitary requirements and to strengthen the administrative structures necessary to apply the common agricultural policy instruments. Provided these targets can be met, accession in the medium term should not be accompanied by significant problems in applying the common agricultural policy in an appropriate manner.

On **energy**, the Czech Republic has a substantial nuclear power programme, which is due to expand further. The modernisation programme needed to bring the nuclear plants at Dukovny and Temelin up to internationally accepted safety standards must be completed within 7 - 10 years. The Czech Republic should be able to comply with the rest of the *acquis* in the medium term, given further work on energy pricing, state intervention in the solid fuel sector and access to networks.

On the basis of the analysis of its capacity to apply the *acquis*, the Czech Republic could be in a position in the medium term to take and implement the measures necessary for removal of controls at its **borders** with member states of the Union. If part of its current borders became part of the Union's external border, reinforcement of border controls would be needed.

The Czech Republic's participation in the third stage of **economic and monetary union**, which implies coordination of economic policy and complete liberalisation of capital movements, should pose no problems in the medium term. But it is premature to judge whether the Czech Republic will be in a position, by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are, however, not a condition for membership.

The Czech Republic is likely to comply with the **justice and home affairs** *acquis* in the next few years, provided that existing progress is maintained, including in the fight against drugs and organised crime.

The Czech Republic should be able to fulfil its obligations in respect of the **common foreign and security policy**.

In addition, the Czech Republic has no territorial disputes with any member state or neighbouring candidate country. All its state frontiers are regulated by Treaty. There remain some minor issues in its relationship with Slovakia.

4. Administrative and legal capacity

For the Czech Republic to have in the medium term the administrative structures necessary for the essential work of applying and enforcing the *acquis* effectively, there will need to be a significant and sustained effort of reform.

It is not yet possible to judge when the Czech Republic's judicial system, which has an equally important role to play, will acquire the capacity to play it effectively, though reform will clearly be required.

Conclusion

In the light of these considerations, the Commission concludes that:

- the Czech Republic presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities;
- the Czech Republic can be regarded as a functioning market economy, and it should be able to cope with competitive pressure and market forces within the Union in the medium term;

- if the Czech Republic continues its efforts on transposition of the *acquis* relating to the single market, and intensifies work on its implementation, the Czech Republic should become capable in the medium term of applying it fully. The import deposit scheme will need to be resolved within the terms of the Europe Agreement. Particular effort, including investment, will be needed to meet the *acquis* in sectors such as agriculture, environment and energy. Further administrative reform will be indispensable if the Czech Republic is to have the structures to apply and enforce the *acquis* fully.

In the light of these considerations, the Commission recommends that negotiations for accession should be opened with Czech Republic.

The reinforced pre-accession strategy will help the Czech Republic to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in this Opinion. The Commission will present a report no later than the end of 1998 on the progress it has achieved.

Romania

Romania submitted its application for membership of the European Union on 22 June 1995. Its request is part of the historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Romania's request for membership.

Romania's preparation for membership is going forward notably on the basis of the **Europe Agreement** which entered into force in February 1995. Implementation of the **White Paper** of May 1995 on the Internal Market, another essential element of the pre-accession strategy, is going ahead on the basis of a harmonisation programme revised by the new government. The government has also reinforced the mechanisms for coordinating its policies for European integration.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgment on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

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1. Political Criteria

Romania has democratic institutions whose stability now seems secure. They still need to be consolidated by fuller respect in practice for the rule of law at all levels of the structures of government. Elections are free and fair, and in November 1996 led to genuine alternation of power.

A number of gaps remain as regards respect for fundamental rights, even if the measures adopted and the undertakings given by the Romanian authorities since November 1996 constitute progress. Considerable efforts are still needed in the fight against corruption, and in order to improve the operation of the judicial system and the protection of individual rights against the police and the secret services as well as during the operation of the penal system.

If the Hungarian minority seems well integrated in the light of recent improvements in their situation, this does not seem to be the case for the Roma, who constitute a significant minority.

Reforms undertaken for protection of children placed in orphanages constitute significant progress, but still need to achieve their full results.

Current improvements following the arrival in power of a new government make it possible to conclude that Romania is on the way to satisfying the political criteria set by the European Council at Copenhagen.

2. Economic Criteria

After several earlier unsuccessful efforts at reform of the Romanian economy, the new government elected in November 1996 has put in place a radical programme of macroeconomic stabilisation and structural reform. This policy is being implemented at a time of diminishing growth (7.1 % in 1995, 4.1% in 1996), accelerating inflation (56.9% in 1996) and deteriorating budget and trading deficits.

Romania has a population of 22.6 million and GDP per head is 24% of the EU average. The agricultural sector employs more than one third of the working population and contributes 20% of the Gross Value Added. There are still substantial structural problems despite recent privatisation. Trade with the EU represents 55% of Romania's exports and 52% of its imports.

On the basis of its analysis, the Commission's judgement as to **Romania's ability to meet the economic criteria** established at Copenhagen is as follows:

Romania has made considerable progress in the creation of a **market economy**. The reorientation of economic policy since the recent change of government has meant a change for the better, but much still needs to be done. While prices have been almost fully liberalized, property rights are not yet fully assured for land, the legal system is still fragile and policy making on economic issues has not always been coherent. Further efforts to consolidate the administrative and legal framework and to address persistent macroeconomic imbalances, are required to ensure a stable environment.

Romania would face serious difficulties to cope with **competitive pressure and market forces within the Union** in the medium term. It has made progress recently towards improving the competitive capacity of its economy, notably by addressing major distortions such as low energy prices, by accelerating privatization, and by beginning to liquidate large loss-making state owned firms. However, much of Romania's industry is obsolete and agriculture needs to be modernised. The low levels of research and development, and of skills among the workforce also suggest that the economy needs a number of years of sustained structural reform.

3. Capacity to take on the obligations of membership

Romania's ability to take on the *acquis* has been judged according to several indicators:

- the obligations set out in the Europe Agreement, particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

Romania has made significant efforts to comply with its obligations under the Europe Agreement and with the recommendations of the White Paper; but the rate of transposition is too low.

Romanian legislation has only taken on a small part of the *acquis* relating to the key elements of the **single market** including competition, except in respect of industrial and intellectual property. The scale of progress still needed requires very substantial and sustained efforts, both in approximation of legislation and in the creation of structures for implementing it. Complete restructuring of the financial sector, in order to re-establish essential public and investor confidence in it, is among the highest priorities.

In general, the weakness of public administration constitutes a serious problem, putting into question both the rate and the quality of approximation of legislation. The various structures necessary for applying legislation on the single market are not currently capable of carrying out their roles.

As for **the other parts of the *acquis***, if Romania pursues its work of transposition, it should not have significant difficulty in applying it in the medium term in the following fields: education, training and youth; research and technological development; fisheries; small and medium enterprises; consumer protection; international trade relations; and development.

By contrast, substantial efforts will be needed in the fields of telecommunications; audio-visual; taxation and customs.

Romania has not yet created the conditions which are conducive to a dynamic and competitive private sector. Its **industry** therefore will only be ready in the long term to withstand competitive pressures in the single market.

For the **environment**, very important efforts will be needed, including massive investment and strengthening of administrative capacity for enforcement of legislation. Full compliance with the *acquis* could only be expected in the very long term and would necessitate increased levels of public expenditure.

Romania has made some progress in taking on the *acquis* for **transport**. It needs to increase its efforts, notably in respect of road freight transport and in the maritime and rail sectors. Romania will also need to provide the investment necessary to complete the European transport network, which is an essential element of the effective operation of the single market.

Romania still needs to make substantial efforts to bring its **employment and social affairs** standards into line with those of the EU. Progress is particularly needed in respect of labour law and health and safety. There also needs to be an effective labour inspectorate.

On **regional policy** Romania has barely started to put in place the structures needed to use effectively the Union's structural funds. It will also need to establish effective systems of financial control.

Romania needs to implement fundamental reform of its **agricultural** sector before it can fulfil the obligations of membership. Particular effort will be needed to restructure the sector and the agrifood industry and to put in place health and quality control mechanisms. Romania will also need to strengthen the administrative structures responsible for implementing the common agricultural policy.

For **energy** efforts are still needed on price fixing, state intervention in the solid fuel and uranium sectors

and the operation of monopolies. Romania has at Cernavoda a nuclear power station which produces around 8% of the country's electricity. It was built in accordance with Western technology. A solution will need to be found to the problem of nuclear waste.

On the basis of the analysis of Romania's capacity to apply the *acquis*, it is not yet possible to be sure when it could become able to take and implement the measures necessary to remove the controls at **borders** between Romania and member states of the Union and to establish them instead at the Union's external border.

Romania does not seem to be in a position to participate in the third stage of **economic and monetary union** which implies coordination of economic policies and the complete liberalisation of movement of capital. It is premature to judge whether Romania will be in a position by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are however not a condition for membership.

Romania faces a particular challenge in **justice and home affairs**. So far it has made limited progress in taking on the *acquis* in this field. The new government has undertaken an ambitious programme to introduce the essential institutional reforms.

Romania should be able to fulfil its obligations in respect of the **common foreign and security policy**.

Romania has recently improved its relations with its neighbours particularly with Hungary and Ukraine, and has settled most of its disputes with these countries.

4. Administrative and Legal Capacity

Romania's administrative structures will need a major and sustained effort of reform if it is to have the capacity to apply the *acquis* effectively.

The capacity of the judicial system to ensure uniform application of Community law is of great importance, especially for implementation of the single market. It is not yet possible to judge Romania's prospects in this sector.

Conclusion

In the light of these considerations, the Commission concludes that :

- the current improvement in Romania, following the arrival in power of a new government, indicates that Romania is on its way to satisfy the political criteria;
- Romania has made considerable progress in the creation of a market economy, but it would still face serious difficulties to cope with competitive pressure and market forces within the Union in the medium term;
- despite the progress that has been made, Romania has neither transposed nor taken on the essential elements of the *acquis*, particularly as regards the internal market. It is therefore uncertain whether Romania will be in a position to assume the obligations of membership in the medium term. In addition, considerable efforts will be needed in the areas of environment, transport, employment and social affairs, justice and home affairs as well as agriculture. More generally, substantial administrative reform will be indispensable if Romania is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission considers that negotiations for accession to the European Union should be opened with Romania as soon as it has made sufficient progress in satisfying the conditions of membership defined by the European Council in Copenhagen.

The reinforced pre-accession strategy will help Romania to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in the Opinions. The Commission will present a report no later than the end of 1998 on the progress Romania has achieved.

Slovenia

Slovenia submitted its application for membership of the European Union on 10 June 1996. Its request is part of the historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Slovenia's request for membership.

Slovenia has not yet ratified the **Europe Agreement** signed on 10 June 1996. It must first modify its constitution to remove the restrictions on ownership of property which still affect nationals of EU member states. Slovenia's preparation for membership is therefore going ahead on the basis of the Interim Agreement which entered into force on 1 January 1997. The government has put in place the necessary mechanisms to coordinate its policies for European integration.

The government has given particular attention to creating the institutional structures necessary to implement the **White Paper** of 1995 on the single market, a key element of the pre-accession strategy. The government agreed in May 1996 a three year programme of transposition of these measures and plans to define an overall strategy on these issues before the end of 1997.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgement on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

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1. Political Criteria

The Slovene institutions function properly, with the different powers respecting the limits on their

competencies and cooperating with each other. Elections in 1992 and 1996 were free and fair. The opposition plays a normal part in the operation of the institutions.

There are no major problems over respect for fundamental rights. Some improvements are still needed in the operation of the judicial system, and in restoring property to former owners dispossessed under the communist regime. The effectiveness of the fight against corruption needs further strengthening.

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

2. Economic Criteria

After a period of falling GDP, Slovenia has had positive growth since 1993 (5.3% in 1994, 3.9% in 1995, 3.1% in 1996). This has been achieved in conditions of balance in public finances and external accounts, and falling inflation (9.1% in 1996). Slovenia has 2 million inhabitants and GDP per capita is 59% of the EU average. The agricultural sector employs nearly 7% of the working population and contributes 5% of gross value added. Trade relations with the EU have grown considerably since 1991 and now represent 65% of Slovenia's external trade.

On the basis of its analysis, the Commission's judgement as to **Slovenia's ability to meet the economic criteria** established at Copenhagen is as follows:

Slovenia can be regarded as a **functioning market economy**. It has advanced considerably in liberalisation and privatisation, and achieved a successful stabilisation of the economy. However, there is a lack of competition in some sectors, in particular the financial sector, the working of the market mechanisms still needs some improvement, and the necessary reforms of the fiscal and social security systems are not yet completed.

Slovenia should be able to cope with **competitive pressure and market forces within the Union** in the medium term, provided that rigidities in the economy are reduced. It has a diverse export base, the workforce is skilled and highly trained, and infrastructure is relatively good. However, enterprise restructuring has been slow due to the consensual character of economic decision-making, and the incentives of workers and managers to preserve the status quo. Improvements in competitiveness have been hampered by rapid wage growth combined with low productivity growth. The low level of foreign direct investment reflects these structural problems, which need to be tackled.

3. Capacity to take on the Obligations of Membership

Slovenia's ability to take on the *acquis* has been evaluated according to a number of indicators:

- the obligations set out in the Europe Agreement, particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

Slovenia, which has not yet ratified the Europe Agreement, has made some progress in applying the corresponding dispositions of the Interim Agreement, and has achieved a satisfactory rate of transposition of the rules and directives set out in the White Paper.

For most of the sectors related to the **single market**, and in particular on accounting, mutual recognition of professional qualifications and intellectual property, the legislative foundation is virtually in place. According to the Slovene authorities' own estimation, most of the necessary measures have been either partly or completely transposed. But further legislative effort will be needed to achieve full absorption of the

acquis.

Notwithstanding the efforts which have been made, the progress made in transposing legislation still needs to be accompanied by concrete measures of implementation, as well as by the establishment of an effective administrative underpinning. Substantial work is still needed in the fields of public procurement, competition, insurance, freedom of capital movements, product conformity and standardisation. Introduction of VAT is a top priority. Implementation and application of legislation should be seen as essential elements of Slovenia's pre-accession strategy. Slovenia needs to go beyond primary legislation and cover also technical standards.

As for the **other parts of the acquis**, if it continues its efforts, Slovenia should not have particular difficulties in applying it in the medium term in the following fields: education training and youth; research and technical development; telecommunications; audio-visual; small and medium enterprises; consumer protection; international trade relations; development; and customs.

The current level and perspective for competitiveness of most of the Slovene **industry** enables a positive expectation on its capacity to cope with the competitive pressure and market forces within the Union in the medium term. There may however, be problems linked to certain labour market rigidities and for those sectors and companies, which have not yet undergone restructuring.

For the **environment**, very important efforts will be needed, including massive investment and strengthening of administrative capacity for enforcement of legislation. Full compliance with the *acquis* could only be expected in the long term and would necessitate increased levels of public expenditure.

Slovenia has already made satisfactory progress in the **transport** field. If it continues its efforts in road freight transport and the railway sector, transport should not pose difficulties for accession. Slovenia has undertaken to make the investments necessary to establish TENs in order to ensure effective functioning of the single market.

Slovenia should also be able to apply the *acquis* on **employment and social affairs** in the medium term. Efforts are still needed, however, on labour law and health and safety at work. Slovenia also needs to establish the autonomy of the labour inspectorate.

As for **regional policy and cohesion** Slovenia has adopted a development policy which should permit it in the medium term to implement Community rules and effectively use structural funds. But it will need to strengthen considerably its financial control mechanisms.

In **agriculture**, if progress is achieved on veterinary and phytosanitary controls, on strengthening the structures needed to apply the CAP, and on re-structuring the agrifood sector as well as on strengthening its rural development policy, membership should not create significant problems for Slovenia in the medium term in applying the CAP in an appropriate manner.

In **energy** efforts are still needed on monopoly operations, price fixing, access to networks and state intervention in the solid fuel sector. Slovenia has a nuclear power station at Krsko, which it shares with Croatia, and which produces 20% of its electricity. It was built according to western technology. A solution needs to be found for its nuclear waste.

On the basis of the analysis of its capacity to apply the *acquis*, Slovenia could be in a position in the medium term to take and implement the measures necessary for removal of controls at its **borders** with member states of the Union.

Slovenia's participation in the third stage of **economic and monetary union**, which implies coordination of economic policy and the complete liberalisation of capital movements, could present some difficulties given the incompatibility of the rules governing the central bank with those of the EU, and also the need to restructure the banking sector. It is premature to judge whether Slovenia will be in a position, by the time of

its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are, however, not a condition for membership.

Slovenia should be able to apply the *acquis* on **justice and home affairs** in the next few years, even if particular attention needs to be paid to the operation of the judicial system, treatment of asylum seekers and the fight against organised crime.

Slovenia should be able to fulfil its obligations in respect of the **common foreign and security policy**.

Since 1991 Slovenia has strengthened its relations with its neighbours and signed Friendship and Good Neighbourliness Treaties with them. There is, however, still a dispute with Croatia over maritime boundaries.

4. Administrative and Legal Capacity

If Slovenia undertakes substantial efforts to reform its administration, the necessary structures could be in place in the medium term to apply the *acquis* effectively.

The capacity of the judicial system to ensure correct and uniform application of Community law is important, particularly for achievement of the single market. In current circumstances it is difficult to judge Slovenia's progress in this field.

Conclusion

In the light of these considerations, the Commission concludes that:

- Slovenia presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities;
- Slovenia can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the medium term;
- Slovenia has to make considerable efforts to take on the *acquis*, particularly as regards the effective application in the area of the internal market. In addition, important progress will be necessary in the sector of environment, employment and social affairs and energy. More generally, further administrative reform will be indispensable if Slovenia is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission recommends that negotiations for accession should be opened with Slovenia.

The reinforced pre-accession strategy will help Slovenia to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in the Opinions. The Commission will present a report no later than the end of 1998 on the progress Slovenia has achieved.

Slovakia

Slovakia submitted its application for membership of the European Union on 27 June 1995. Its request is part of the historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Slovakia's request for membership.

Slovakia's preparation for membership is going forward notably on the basis of the **Europe Agreement**

which entered into force in February 1995. Implementation of the White Paper of May 1995 on the Internal Market, another essential element of the pre-accession strategy, is going ahead on the basis of a Plan agreed by the government. The government has put in place the necessary mechanisms to coordinate its policies for European integration.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgement on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

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1. Political Criteria

Slovakia's situation presents a number of problems in respect of the criteria defined by the European Council in Copenhagen.

The operation of Slovakia's institutions is characterised by the fact that the government does not sufficiently respect the powers devolved by the constitution to other bodies and that it too often disregards the rights of the opposition. The constant tension between the government and the President of the Republic is one example of this. Similarly, the way in which the government recently ignored the decisions of the Constitutional Court and the Central Referendum Commission on the occasion of the vote on 23/24 May 1997 directly threatened the stability of the institutions. The frequent refusal to involve the opposition in the operation of the institutions, particularly in respect of parliamentary control, reinforces this tendency.

In this context, the use made by the government of the police and the secret services is worrying. Substantial efforts need to be made to ensure fuller independence of the judicial system, so that it can function in satisfactory conditions. The fight against corruption needs to be pursued with greater effectiveness.

Apart from this the treatment of the Hungarian minority, which still lacks the benefit of a law on use of minority languages, even though the Slovak authorities had undertaken to adopt one, as envisaged by the constitution, needs to be improved. The situation of the Roma similarly needs attention from the authorities.

In the light of these elements, although the institutional framework defined by the Slovak constitution responds to the needs of a parliamentary democracy where elections are free and fair, nevertheless the

situation is unsatisfactory both in terms of the stability of the institutions and of the extent to which they are rooted in political life. Despite recommendations made by the European Union in a number of demarches and declarations, there has been no noticeable improvement.

2. Economic Criteria

After a fall in GNP of nearly 25% between 1989 and 1993 Slovakia has seen positive growth since 1994 which in 1995 and 1996 reached high levels (6.8% in 1995, 6.9% in 1996), while inflation has fallen (5.4% in 1996). This has, however, been accompanied by an increase in budget deficits and in particular by a worsening of external accounts.

Slovakia has 5.4 million inhabitants and its GDP per capita is 41% of the EU average. The agricultural sector employs nearly 10% of the working population, and produces 6% of gross value added. Trade relations with the EU have grown considerably since 1989 and now represent 36% of Slovakia's imports and 41% of its exports.

On the basis of this analysis, the Commission's judgement as to **Slovakia's ability to meet the economic criteria** established at Copenhagen is as follows:

Slovakia has introduced most of the reforms necessary to establish a **market economy**. The price system has been liberalised and allocation decisions are decentralised by the advanced privatisation process. Nevertheless, a restrictive Price Law has been introduced in 1996, and the draft Enterprise Revitalisation Act would be a major step back from market mechanisms. The financial sector needs to be reinforced, and progress is needed in the regulation of the bankruptcy process and capital markets.

Slovakia should be able to cope with **competitive pressure and market forces within the Union** in the medium term, but this would require more transparent and market-based policies. For a number of years, the economy has grown rapidly, with low inflation. The country has low wage costs and a skilled labour force. However, enterprise restructuring has been slow, which is gradually undermining economic growth and external balance. The low level of foreign direct investment reflects these structural problems, which need to be tackled swiftly and in a transparent way.

3. Capacity to take on the obligations of membership

Slovakia's ability to take on the *acquis* has been evaluated according to a number of indicators:

- the obligations set out in the Europe Agreement, particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

Slovakia has for the most part met its obligations under the Europe Agreement and mostly according to the timetable for implementation set out in it. The Agreement has operated in a satisfactory manner, but it has not been possible to resolve all the problems which have arisen in relation to both the democratic functioning of the institutions and commercial matters. In particular, the introduction by Slovakia of a system of import deposits is not in accordance with the Agreement. Slovakia has achieved a satisfactory rate of transposition of the rules and directives identified in the White Paper.

Significant progress has been achieved on transposing legislation related to key areas of the **single market** such as company law, banking, free movement of capital and taxation, even if further work is needed to achieve full alignment with EC rules. More substantial efforts are needed to apply the *acquis* in the medium term on standards and certification, industrial and intellectual property, competition, public procurement and insurance.

Notwithstanding the efforts which have been made, the progress made in transposing legislation still needs to be accompanied by concrete measures of implementation as well as establishment of an effective administrative underpinning. Slovakia has a number of instruments which operate correctly, but substantial efforts are still needed in some sectors, notably public procurement, industrial and intellectual property and standardisation.

As for **the other parts of the *acquis***, provided it continues its efforts, Slovakia should not have particular difficulty in applying it in the medium term in the following fields: education, training and youth; research and technological development; audio-visual; small and medium enterprises; consumer protection; international trade relations; and development.

By contrast, Slovakia will need to make substantial efforts in order to apply the *acquis* in the fields of telecommunications and customs.

The integration of Slovak **industry** in the European market could face difficulties to proceed satisfactorily over the medium term. This will require diversification away from heavy industries and more effective restructuring of enterprises.

For the **environment**, very important efforts will be needed, including massive investment and strengthening of administrative capacity for enforcement of legislation. Full compliance with the *acquis* could only be expected in the long to very long term.

Slovakia has made efforts towards applying the *acquis* in the field of **transport**. But further progress is needed on road freight transport and the railway sector, without which it would be hard for Slovakia to meet the obligations of accession. Only if the situation improves is the transport sector unlikely to pose major problems. Slovakia needs to make the necessary effort, in collaboration with the international financial institutions, to integrate itself into the European transport network and to achieve establishment of the TENs which are important elements in the effective functioning of the single market.

Slovakia still has substantial work to do to align its **employment and social affairs** standards on those of the EU. Progress is needed in particular on labour law, health and safety at work and the labour inspectorate, which does not currently have the autonomy necessary to fulfil its role properly.

As for **regional policy and cohesion** Slovakia needs to pay more attention to existing regional disparities, and also to establish the necessary financial controls, in order to apply Community rules and in due course utilise structural funds.

In **agriculture**, provided there is progress on veterinary and phytosanitary controls, on strengthening of the structures needed to apply CAP and on re-structuring the agrifood sector, accession in the medium term should not cause significant problems for Slovakia in implementing the CAP in an appropriate manner.

As for **energy**, work is still needed on operation of monopolies, price fixing, access to networks and state intervention in the solid fuel sector. Slovakia has a nuclear power station at Bohunice which produces nearly 50% of the country's electricity; and is constructing a new power station at Mochovce. It must in the medium term modernise two of the units at Bohunice to bring them up to internationally accepted safety standards; and must take the appropriate measures to close the units which cannot be modernised. A long-term solution needs to be found for nuclear waste.

On the basis of the analysis of its capacity to apply the *acquis* it is not yet possible to be sure when Slovakia could become able to take and implement the measures necessary to remove the controls at **borders** between Slovakia and member states of the Union and to replace them at the Union's external border.

Slovakia's participation in the third stage of **economic and monetary union**, which implies coordination of economic policy and the complete liberalisation of capital movements, could present some difficulties given

the incompatibility of the rules governing the central bank with those of the EU, and also the need to restructure the banking sector. It is premature to judge whether Slovakia will be in a position by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are however not a condition for membership.

Slovakia should be able to apply the *acquis* on **justice and home affairs** in the medium term, though particular attention needs to be given to frontier controls, visa policy and the fight against organised crime. Progress in this sector will also depend on respect for fundamental democratic rights.

Slovakia should be able to fulfil its obligations in respect of the **common foreign and security policy**.

Since 1989 Slovakia has strengthened its relations with its neighbours and settled almost all its disputes with them.

4. Administrative and legal capacity

If Slovakia undertakes substantial efforts to reform its administration, the necessary structures could be in place in the medium term to apply the *acquis* effectively.

The capacity of the judicial system to ensure correct and uniform application of Community law is important, particularly for achievement of the single market. In current circumstances it is difficult to judge Slovakia's progress in this field.

Conclusion

In the light of these considerations, the Commission concludes that Slovakia does not fulfil in a satisfying manner the political conditions set out by the European Council in Copenhagen, because of the instability of Slovakia's institutions, their lack of rootedness in political life and the shortcomings in the functioning of its democracy.

This situation is so much more regrettable since Slovakia could satisfy the economic criteria in the medium term and is firmly committed to take on the *acquis*, particularly concerning the internal market even if further progress is still required to ensure the effective application of the *acquis*.

In the light of these considerations, the Commission considers that negotiations for accession the European Union should be opened with Slovakia as soon as it has made sufficient progress in satisfying the conditions of membership defined by the European Council in Copenhagen.

The reinforced pre-accession strategy will help Slovakia to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in the Opinions. The Commission will present a report no later than the end of 1998 on the progress Slovakia has achieved.