

**Comprehensive monitoring report**

**of the European Commission**

**on the state of preparedness for EU membership**

**of the Czech Republic, Estonia, Cyprus, Latvia,  
Lithuania, Hungary, Malta, Poland, Slovenia and  
Slovakia**

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## A. INTRODUCTION

In its Strategy Paper “Towards the enlarged Union”, which accompanied the 2002 Regular Reports on the candidate countries for accession, the Commission considered that ten candidate countries will have fulfilled the criteria for membership from the beginning of 2004 and recommended that the accession negotiations be concluded with them. Subsequently, the accession negotiations with the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia were concluded and a Treaty of Accession was signed in Athens on 16 April 2003. These ten countries are to join the EU on 1 May 2004.

More details on the overall state of the enlargement process can be found in the Strategy Paper entitled “Continuing enlargement”, which continues the series of yearly strategy papers adopted by the Commission on the enlargement process as a whole. This paper also presents the summary findings of the Regular Reports on the candidate countries Bulgaria, Romania and Turkey.

As underlined by the Heads of State and Government at the signing ceremony in Athens, accession is a “*new contract between our citizens and not merely a treaty between states*”. EU membership affects everyday lives directly, and what goes on in one Member State has consequences in the others. Keeping in mind the deep integration and interdependence which the Member States have reached at the moment of the Union’s fifth enlargement, the Union needs to be able to absorb this enlargement rapidly and smoothly. It is essential to safeguard the functioning of the internal market and maintain public confidence in areas such as food safety or cooperation in the field of justice and home affairs.

In presenting this Report, the Commission fulfils its commitment made in the Strategy Paper “Towards the enlarged Union” of last year, notably to “*produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European Parliament*”. The Commission also responds to a request expressed by the European Council meeting in Copenhagen in December 2002, that monitoring should continue up to accession, and that it should give further guidance to the acceding states in their efforts to assume the responsibilities of membership and give the necessary assurance to current Member States. The European Council also invited the Commission to make the necessary proposals on the basis of its monitoring findings. In monitoring the implementation of the *acquis* by the acceding countries, the Commission is carrying out its usual role as guardian of the Treaties.

This report serves the purpose of presenting the findings of the Commission’s comprehensive monitoring of the preparations made by the acceding countries in the period leading up to their accession. Based on the individual country reports, the conclusions of which are annexed, it assesses their overall state of preparedness for membership, identifies the remaining gaps and presents policy options for dealing with these gaps. This report reflects the situation at the end of September 2003.

The Commission’s point of departure is that the acceding countries must be fully prepared for membership from the date of accession. This report confirms that great progress has been made by the acceding countries, but that certain important tasks must

still be undertaken between now and accession. The importance of these tasks, and the serious consequences in the event of failure, must not be underestimated. The Commission is determined to take the appropriate measures to safeguard the functioning of the Union in all areas, and in particular of the internal market, wherever necessary.

As regards Cyprus, Protocol No. 10 of the Accession Treaty lays down a simplified procedure to adapt the terms of Cyprus's accession to take account of a comprehensive settlement. However, if there would be no such settlement by accession, the Protocol would suspend the application of the *acquis* in the areas not under effective control of the Government, given that Cyprus as a whole will accede to the Union. Before accession, the terms under which EU law will apply to the line between the north and the government-controlled areas would have to be defined. As a comprehensive settlement has not yet been reached at this stage, this report only monitors the application of the *acquis* in the government-controlled part of Cyprus.

## B. COMPREHENSIVE MONITORING REPORTS

### 1. Methodology

Accession negotiations with the ten acceding countries were concluded in Copenhagen in December 2002 based on the assessment that those countries will be ready for membership at the beginning of 2004. The Commission has continuously monitored the progress made by the acceding countries towards meeting the requirements of membership over a number of years. Its principal findings were published in the form of yearly Regular Reports on each country. This monitoring has enabled the Union to conduct and conclude the accession negotiations in parallel with, and on the basis of, real progress on the ground in the countries concerned. Closure of the negotiations on individual chapters was based on the progress already achieved in aligning with the *acquis*. Nevertheless, given the considerable period of time between the conclusion of negotiations and the actual date of accession – more than two years for most negotiating chapters – closure was also based partly on credible commitments by the acceding countries on the adoption and implementation of the EU legislation. The Commission's monitoring work has been intensified since the conclusion of the negotiations in December 2002, specifically to verify that the commitments made by the acceding countries in the negotiations are being met in practice as the accession date draws closer.

The reference framework for this monitoring is found in the outcome of the negotiations as reflected in the Treaty of Accession, which contains rights and obligations of the future Member States and concrete commitments on their adoption and implementation of the Union's political and legal order, known as the *acquis communautaire*.

The basic commitment, and indeed a central Treaty obligation, is to apply the full *acquis* from the first day of membership, with the exception of those areas where transitional arrangements have been agreed in the negotiations. This includes the *acquis* which was covered by the accession negotiations, i.e. the *acquis* adopted until 1 November 2002, and the new *acquis* adopted after that date which will be in force by accession. The monitoring in general also covers new *acquis* that will enter into force only after 1 May 2004, but of course due account is taken of the different time line for its implementation. The monitoring also takes into consideration the effect of the transitional measures agreed in the accession negotiations to the extent that they allow the application of certain specific requirements of the *acquis* to be postponed. It should be noted that in the agricultural and veterinary area the Accession Treaty provides the possibility to introduce additional transitional measures to deal with unforeseen problems. Significant delays in alignment of implementation as compared with specific dates of commitments made in the negotiations have been signalled where this is relevant from the point of view of whether a country is likely to be ready by accession.

The Commission services have closely monitored progress in the acceding countries in the course of this year and have provided the Council with the necessary information. The findings of the monitoring reports were communicated to the acceding countries for guidance in their further preparations for accession. They were warned of the specific gaps in alignment and implementation which, unless they were immediately addressed, would lead to a negative assessment in the Comprehensive Monitoring Report.

The individual Comprehensive Monitoring Reports which accompany this report assess for each of the 29 chapters of the *acquis* the state of preparedness in the respective

acceding countries, both in terms of transposition of legislation and from the perspective of implementing structures, administrative capacity and enforcement. As a rule, only legislation actually adopted and measures actually implemented are taken into account for the assessment. In the conclusion for each chapter, a distinction is made between three categories of issues.

The *first category* embraces those issues where *a country is ready* or where minor issues remain to be addressed. These are largely technical issues where preparations are ongoing and which will be resolved by accession if the current pace of preparations is maintained.

The *second category* includes remaining *issues requiring enhanced efforts* and an increased pace of progress to ensure that they are resolved by the time of accession.

The *third category* addresses *issues of serious concern* where immediate and decisive action needs to be taken for the country to be ready by the date of accession. If the problem is not tackled, some of these issues may lead to a situation where a new Member State will not have the full benefit of membership.

In view of their importance for the implementation and enforcement of the *acquis* in general, the Comprehensive Monitoring Reports cover the issues of administrative and civil service reform, judicial reform and the development of effective anti-corruption measures for all countries in an introductory part to the analysis for the 29 chapters of the *acquis*. Such issues used to be dealt with in previous Regular Reports under the political criteria, which all acceding countries now fulfil. Certain other issues are dealt with under the relevant chapters of the *acquis*, e.g. the anti-discrimination legislation in Chapter 13 – Social policy and employment.

The Comprehensive Monitoring Reports also look at economic policy improvements, in particular to follow up on the issues that were highlighted for each country in the economic criteria conclusions of the 2002 Regular Reports as being in need of improvements. These concern in particular fiscal policy; restructuring and privatisation; reform of the labour market, health sector and pensions; and the improvement of the business environment. In the future, this surveillance of progress with regard to economic, budgetary and structural policies in the acceding countries will be continued within the existing economic policy co-ordination processes involving all the Member States (*see more details under point D.2*).

A summary of the findings for all the acceding countries is presented in point 2 below.

## **2. Summary of the findings**

Last year's Regular Reports concluded that the acceding countries fulfilled the Copenhagen political criteria and that all had functioning market economies. Bearing in mind the progress achieved by these countries, the track record in implementing their commitments, and taking into account their preparatory work in progress and foreseen, the Commission considered that "these countries will have fulfilled the economic and *acquis* criteria and will be ready for membership from the beginning of 2004".

## 2.1 Economic policy improvements

Last year's Regular Reports led the Commission to conclude that all acceding countries will fulfil the economic criteria by accession. This assessment remains valid. At the same time, the Commission had also suggested some areas where further improvements could still be made in the economic field. This year's Comprehensive Monitoring Reports focus on these suggestions for improvements, and includes a summary of the main economic events in the last twelve months up to mid-2003.

*Economic growth* in the acceding countries continued to be sustained, despite a lacklustre international environment. The consequences of the global uncertainty were felt and economic activity slowed down, but in general far less than in the EU, their main trading partner, where growth came almost to a standstill in the first half of 2003. *Inflation* was on a downward trend in most countries and, in some, prices declined even slightly. The continuing liberalisation of administrative prices and the adjustment of indirect taxes towards EU rules delayed in some countries the disinflationary process or temporarily reversed it. While the *unemployment rate* is still high as a result of the economic restructuring which took place, its rising path appears to have been curbed in the countries where the unemployment rate was not already declining. There is less labour shedding and in some countries employment creation is taking hold.

In 2002, most countries had a *general government deficit* and in some countries the fiscal slippage was considerable. General government deficits ranged from about 2 % to 9 % of GDP. Public finances deteriorated because of the economic slowdown and loose policies, but part of the deficit can be attributed to better measurement. The *current account balance* widened in most countries in 2002, but remained within sustainable levels. Generally, it was not the trade balance which worsened but more outflows were registered in the income and services accounts. The current account remains largely financed by foreign direct investment, although under the influence of the global investment slump also the acceding countries received less foreign direct investment.

Macroeconomic stability has been preserved. The continuation of the reform path will increase the ability of the acceding countries to take full advantage of the economic opportunities offered by their integration into the internal market. Depending on the country, between two and six areas for improvements were identified in last year's Regular Report. The Comprehensive Monitoring Reports assess the implementation of the recommendations for improvements and find that in general some progress has been made but challenges remain. They will be followed up in the EU surveillance procedures in place for Member States, particularly the Broad Economic Policy Guidelines or the Excessive Deficit Procedures.

## 2.2 Legislative and administrative preparations

As recognised already in last year's Strategy Paper, the acceding countries have successfully undertaken a wide-ranging legislative and administrative adjustment over the past years in order to implement the *acquis* as it has developed in the current Member States over several decades. The Commission has aided this process through a range of dedicated instruments including technical assistance and investment in infrastructure needed for applying the *acquis*, the twinning of administrations of the present Member States with their counterpart institutions in acceding countries, peer reviews, or the joint elaboration by Commission and acceding country experts of concrete action plans. A

particular effort has been made in the last year, demonstrating the acceding countries' commitment to enter the EU as fully prepared Member States. They deserve recognition for their remarkable overall achievements.

The Commission's assessment made at the time of the conclusion of the accession negotiations, that these countries will be ready for membership from the beginning of 2004, is confirmed.

### *General administrative capacity*

In terms of **general administrative capacity**, the existence of an effective and reliable public administration and of an independent and efficient judiciary are essential for the effective implementation of the *acquis*.

Sufficient conditions are in place for the implementation of the *acquis* by the public administration and judiciary, but there is room for further improvements in all acceding countries. The assessment shows that for most areas of the *acquis* the administrative structures are in place, and in a few of them has capacity already reached a point where the structures are optimal for membership. However, most need strengthening in terms of human resources, training (including language training) and budget. Even within the existing budgetary constraints, better results could be achieved if priorities were clearly identified and targeted on those areas that are critical for the acceding countries to function properly within the EU. Now is the time to make these investments. In a number of cases, there are also problems arising from insufficient co-ordination among and within various institutions involved in implementing the relevant *acquis*. The on-going reforms aimed at strengthening the judiciary in the acceding countries should continue, so as to ensure the effective enforcement of the *acquis*. This applies also to the regulatory and supervisory authorities which are required in a number of sectors to ensure the proper enforcement of the *acquis*; they need to be sufficiently independent and receive adequate resources to fulfil their tasks.

With a few notable exceptions, the perception remains that the level of corruption in the acceding countries is still high, and very high in some cases, and can affect confidence in the public administration and the judiciary, thereby affecting also the proper implementation of the *acquis*. The fight against corruption must therefore remain a policy priority in the coming years. Most acceding countries have now taken decisive steps to develop such policies of increased public awareness and more effective penalties, but a sustained effort is required to ensure full implementation. The emergence of high-profile corruption cases can increase the perception of corruption but should be seized upon to launch and implement decisive anti-corruption measures. The Commission, too, will pay particular attention in the coming years to protect EU funds from being diverted from their rightful beneficiaries as a result of fraud and corruption.

The acceding countries must ensure the translation of the *acquis* into their official languages. While the EU institutions take responsibility for the final revision and publication of the translations in a special edition of the Official Journal, it falls to the acceding states to produce the translations and to ensure a thorough legal and linguistic revision. If the *acquis* is not made available in the language of a new Member State, as required by the Accession Treaty, this country may be subject to infringement proceedings. A number of acceding countries had initially underestimated this task and have recently taken decisive measures to speed up the process. It is now on track for most



new languages, but the number of revised texts submitted by Lithuania, Malta and Slovenia must still increase greatly in order to ensure timely publication.

### ***Progress made in adopting and implementing the acquis***

In most areas of the *acquis*, preparations for membership have been virtually completed already at this stage. This is the case in the following areas.

As regards the *free movement of goods, services, persons and capital*, alignment is well advanced. The acceding countries have well understood the “new approach” legislation, with its emphasis on the safety of industrial goods rather than mandatory specifications. The necessary institutional capacity is in place and is mostly functioning satisfactorily. Provisions have been made to ensure the free movement of workers and the transitional arrangements in this area apply. Capital movements have mostly been liberalised and the EU’s strict anti-money laundering rules have been introduced, although fine-tuning is needed in some countries. As regards financial services, the *acquis* in the banking sector is particularly well established. Data protection rules are in place. *Company law* and accounting rules are for the most part already aligned with the *acquis*. In the area of *competition policy*, both the anti-trust and state aid *acquis* are well aligned and satisfactorily enforced in all countries, with only a few very specific exceptions (detailed below).

In *agriculture*, preparations for the application of the common agricultural policy are being finalised as required in most countries, with some specific exceptions in certain countries. On the whole, there are no major foreseeable problems to apply the various common market organisations, or the rules on state aid, quality and organic farming, provided the problems to set up the necessary institutions and procedures which still affect about half of the countries, are overcome (these problems are detailed below). In most countries, plans for rural development measures involving EU funding are well developed and should be able to start on time. In the veterinary and phytosanitary field, certain specific aspects can be considered largely completed, notably animal disease control measures and zootechnics.

In *fisheries*, the alignment with EU state aid rules and the adaptation of international fisheries agreements is expected to be completed by accession without major problems (with one exception detailed below). All land-locked acceding countries, as well as Slovenia, can be considered to be fully on track to apply the *acquis* by accession.

In *transport policy*, alignment is advanced in the rail and inland waterways sectors, and in relation to trans-European transport networks. A majority of acceding countries is also well on track to apply the *acquis* on road, air and maritime transport by accession.

Most acceding countries should have no particular difficulty in applying the *acquis* on *taxation* (VAT, excise duties and direct taxation) upon accession. Most are also well prepared for implementing administrative cooperation in the field of taxation and *customs*, and for correctly collecting and transmitting their country’s contributions to the EU *budget*. As regards *financial control*, external audit is well developed, and half of the acceding countries can be considered to already have optimally functioning public internal financial control in place.

Except for the most recent *acquis*, the level of alignment with *social policy and employment acquis* has progressed satisfactorily, including, in most countries, on health and safety at work and on labour law. The policies relating to equal treatment of men and women, employment, social dialogue, social inclusion and social protection are well understood. A good level of alignment has on the whole been reached in energy policy, including as regards electricity and gas sector liberalisation and nuclear safety. As to nuclear installations, the closure commitments and the closure dates agreed during the accession negotiations and specifically set out in the Accession Treaty, i.e. the closure commitments related to the reactors at the Ignalina nuclear power plant in Lithuania and the Bohunice nuclear power plant in Slovakia, must be scrupulously respected.

In the field of *environment* policy, the acceding countries are for the most part well on track to be able to implement the *acquis* from accession, in particular as regards horizontal environmental legislation, air quality, waste management, water quality, chemicals and genetically modified organisms, noise, and nuclear safety and radiation protection.

On the whole, preparations in the field of *justice and home affairs* are progressing satisfactorily. Most countries are well on track in implementing their Schengen Action Plan and strengthening external borders (internal borders with other Member States will not be opened as from accession, but only at a later stage). The *acquis* on police cooperation is expected to be implemented by accession, and on the whole appropriate measures in the fight against organised crime, terrorism and drugs are being developed. No particular difficulties are currently envisaged as regards customs cooperation and judicial cooperation in civil and criminal matters. The required legal instruments relating to human rights are in place.

Preparations are also expected to be completed without particular difficulties in relation to the following *acquis* chapters as a whole (with a few limited exceptions in certain countries as detailed below): economic and monetary union (the acceding countries will adopt the euro as their currency only at a later stage, after accession); statistics; industrial policy and the promotion of small and medium-sized enterprises; science and research programmes; education and training; external relations and the common foreign and security policy. The culture and audio-visual *acquis* is already well implemented in a majority of countries.

The acceding countries have thus reached a high degree of alignment with the *acquis* at the cut-off date of 30 September, which was seven months from accession. They are already sufficiently prepared to apply most parts of the *acquis*. Nevertheless, a number of issues remains to be tackled in all countries. This includes a number of issues requiring enhanced efforts from the acceding countries and, in a few cases, some issues of serious concern, which are set out below.

### ***Issues requiring enhanced efforts***

The Commission has identified a number of issues requiring enhanced efforts from the acceding countries. These are areas of the *acquis* where work is expected to be completed in time for accession provided the countries make enhanced efforts by accelerating their pace of progress. Such issues have been found in all acceding countries and in most *acquis* chapters, as described below.

As regards the *free movement of goods, services, persons and capital* and related internal market *acquis*, although much has been done, particular efforts will still be required in Estonia, Latvia and Poland, but also in the Czech Republic and Slovakia:

- All acceding countries except Cyprus have substantial work remaining to identify and eliminate all national measures that conflict with the fundamental principles of free movement, and to introduce the principle of mutual recognition. This affects mainly trade in goods, cross-border services and the recognition of professional qualifications. In some countries, including the Czech Republic and Poland, already identified barriers are sometimes being removed only reluctantly. For some products and services, the *acquis* prescribes harmonised rules and approaches. All countries still have gaps in the transposition of such legislation relating to industrial products, foodstuffs and certain services. In the field of capital movements, Latvia must increase efforts to complete liberalisation in time; Lithuania to put in place appropriate payment systems. Although much of this legislation is planned to be adopted in the coming months, further delays beyond the date of accession must not be allowed to occur.
- In terms of institutional capacity, market surveillance - an essential component of the functioning of the internal market - must continue to be strengthened in all countries. Failures in surveillance can allow unsafe products, both industrial and food products, to circulate freely in the internal market. If unchecked, this can undermine public confidence and lead to calls for restrictions on products from new Member States who fail to control their markets.
- The Czech Republic, Estonia, Latvia, Hungary, Malta and Poland have not completed alignment with EU public procurement rules. This must now be undertaken, taking into account that only expenditure relating to projects implemented in full conformity with the EU public procurement rules will be eligible for co-financing under the structural funds as from 1 January 2004.
- As regards financial services, Poland needs to accelerate the final transposition relating to the financial sector. The Czech Republic, Latvia, Lithuania and Slovakia need to do this in the insurance sector, and Estonia, Cyprus, Latvia and Lithuania in the area of investment services and securities markets. This is also the case for information-society services. In some countries, greater efforts are also needed to strengthen the independence and efficiency of the financial supervisory authorities, a key requirement for safeguarding confidence in the EU's integrated financial market.

In *competition policy*, Latvia and Slovenia must improve enforcement capacity in relation to anti-trust rules; the Czech Republic, Malta, Poland and Slovakia must enhance efforts to ensure proper enforcement of all state aid measures. Concerning *industrial policy*, substantial tasks remain to be undertaken in the restructuring of the steel industries in Poland, as well as in the privatisation of state-owned enterprises.

Although the acceding countries have mostly adopted the necessary legislation for the protection of *intellectual and industrial property rights*, and have strengthened the relevant enforcement bodies, a relatively high degree of violations of intellectual and industrial property rights persists compared to the situation in the current EU. The fight against piracy and counterfeiting needs to be stepped up in the coming years.

Although legislation is largely in place, all acceding countries except Slovenia must give greater priority to the completion of preparations in *agriculture* and *fisheries*, which directly affects the livelihood of a large section of their population:

- A number of countries must accelerate preparations to apply the common market organisations for certain products. This is the case for sugar in the Czech Republic, Latvia, Hungary, Slovenia and Slovakia; milk in the Baltic countries, Poland and Slovenia; beefmeat in the Czech Republic, Latvia, Lithuania, Malta, Poland and Slovakia; wine in the Czech Republic, Hungary, Malta and Slovakia; eggs and poultry in Poland; and fruit and vegetables and olive oil in Malta.
- Enhanced efforts are needed to set up the Paying Agencies responsible for transmitting EU funds to the final beneficiaries and for implementing the Integrated Administration and Control System (IACS) and agricultural trade mechanisms in all countries except Slovenia and, as regards the Integrated Administration and Control System (IACS), Cyprus. Cyprus and Malta must speed up preparations for applying the Farm Accountancy Data Network. Organic farming rules remain to be aligned in Malta.
- A few countries are lagging behind in preparing to apply EU-funded rural development measures, especially Hungary but also Malta and Poland.
- Substantial shortcomings still exist in the veterinary and phytosanitary field, most markedly in the Czech Republic, Hungary and Poland, but also in Latvia and Slovakia. All acceding countries need to take measures to put in place the EU's veterinary control system (including import controls and animal identification), measures to deal with transmissible spongiform encephalopathies (such as BSE) and animal by-products (particularly Latvia, Malta and Poland), structural and hygiene standards in meat, milk and fish processing plants (particularly in the Czech Republic, Hungary, Poland and Slovakia), common measures in relation to residue monitoring, and phytosanitary control (particularly Poland). Other areas requiring enhanced efforts are: animal disease control measures (Latvia); trade in live animals and animal products; animal welfare (Czech Republic, Latvia, Lithuania and Poland) and animal nutrition (Czech Republic, Estonia, Cyprus, Malta and Poland).
- In *fisheries*, increased efforts are required by the seven acceding fishing nations except Malta and Slovenia to put in place the required resource and fleet management and to ensure proper inspection and control. The Baltic countries and Poland must accelerate their preparations for taking part in the EU fisheries market policy; Estonia, Lithuania, Malta and Poland need to enhance preparations to benefit from EU structural actions. Poland is also lagging behind as regards state aid rules and the alignment of international fisheries agreements.

Although implementation of the *acquis* is largely achieved in most countries, some specific issues remain in the *transport* and *energy* sectors. In energy, Cyprus has not implemented the *acquis* on oil stocks and, together with Latvia, is currently not regulating the electricity and gas sectors in line with EU requirements. Alignment in the road and air sectors is delayed in Cyprus, which together with Malta must make serious efforts on maritime safety. Other countries must also enhance efforts considerably in these three sectors: Slovakia and in particular the Czech Republic in the road sector, Estonia and Latvia in air transport, Estonia and Poland in maritime transport. Hungary is lagging in implementing the railways *acquis*. All acceding countries must still finalise

measures to apply the recent *telecommunications acquis*. Except in the Czech Republic and Slovenia, reinforced efforts are also required to implement the *acquis* on postal services. The Czech Republic, Cyprus, Hungary and Poland must finalise alignment with the *audio-visual acquis*; in the case of Poland, particular efforts are still required.

Although the major part of the work has been done in the area of *taxation*, Latvia, Poland and Slovakia must accelerate the remaining alignment with the *acquis* on VAT; Poland and Slovakia also on excise duties. Enhanced efforts are required on the part of Estonia, Malta and Slovenia to meet their obligations as far as direct taxation is concerned. Latvia and Lithuania have not prepared in good time for administrative co-operation and mutual assistance in the field of taxation and *customs*, although for Lithuania a temporary solution has been found. As regards *financial control*, further efforts are required in the Czech Republic, Cyprus, Hungary and Poland to optimise public internal financial control. In Latvia external audit should be strengthened. Further action is needed in Estonia, Latvia, Hungary, Poland and Slovakia to take by accession all measures to ensure the protection of the EU's financial interests. On *economic and monetary union*, Poland must now take the final steps required to ensure the full independence its central bank.

As regards *social policy and employment*, while most of the preparations have been made in good time, the Czech Republic, Malta and Poland must accelerate the completion of alignment with the *acquis* on health and safety at work, and Estonia and Poland with labour law. The acceding countries still need to adopt the recent *acquis* on tobacco products (except the Czech Republic, Hungary, Malta and Slovenia) and combating – discrimination; Malta needs to make efforts as regards communicable diseases. Preparations for actions under the European Social Fund should be reinforced in all countries. In the field of *environment policy*, Estonia in particular must now increase efforts to complete legal alignment with EU rules on air quality, waste management, nature protection, industrial pollution and radiation protection. Other countries must enhance efforts in specific fields: waste management in Malta; nature protection in the Czech Republic, Cyprus, Hungary, Malta and Poland; industrial pollution and risk management in Hungary, Poland and Slovakia; and genetically modified organisms in Cyprus. As regards *external relations*, all acceding countries must finalise the steps taken to renegotiate or terminate their bilateral agreements to make sure that they are compatible with the *acquis* upon accession.

Although the programming process is proceeding satisfactorily, enhanced efforts are required in most acceding countries to implement the *Structural and Cohesion Funds*. These efforts are particularly pressing considering that actions will be eligible for EU funding as from 1 January 2004, less than two months from now. A particular problem in all acceding countries is the lack of a sufficient number of quality projects ready to be launched. The start of the programmes will be delayed if the legislative framework, including EU rules on public procurement, state aid and environmental protection, is not in place; the Czech Republic, Estonia, Latvia, Hungary, Malta, Poland, Slovenia and Slovakia in particular face this risk. Enhanced efforts are also required in all countries except Malta to strengthen the procedures and institutions set up to implement the structural programmes. The same applies to improvements to financial management and control in the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia.

Despite significant and broad-based progress in the field of *justice and home affairs* in all acceding countries, Malta, Poland and Slovakia still need to accelerate the implementation of their Schengen Action Plan; Hungary, Malta, Poland and Slovakia need to continue to strengthen external borders. Estonia, Latvia, Slovenia and Slovakia need to improve personal data protection. Cyprus, Poland and Slovakia must now complete alignment with EU visa policy, and Latvia and Lithuania with migration policy. The acceding countries, except Estonia, Poland and Slovenia, are not yet properly implementing the *acquis* on asylum, and must now tackle this issue. Lithuania must enhance preparations for police cooperation and related actions to combat organised crime. The fight against fraud, corruption and money laundering needs to be given more attention in the Czech Republic, Estonia, Lithuania and Poland; also Latvia, Slovenia and Slovakia should step up the fight against fraud and corruption; Latvia and Poland need to strengthen the fight against drugs.

On all these issues, corrective action is at this moment feasible and expected, but the acceding countries are warned that greater and enhanced efforts are required to solve them in time for accession. If such efforts are not undertaken as expected, there is a real risk of delays in transposing and applying the *acquis* by accession. Clear examples are the reluctance of some acceding countries to remove already identified barriers to trade, or the inadequate legal alignment and weak supervision in the financial sector. Such cases would be subject to remedial action by the Commission and by the Union as described below.

### *Areas of serious concern*

The Commission has identified a number of gaps in the preparation for membership which are of serious concern and where, unless immediate and decisive action is taken, the country in question will not be in a position to implement the *acquis* by the date of accession. This concerns 39 issues involving the ten countries, but often similar gaps are found in several countries. They can be grouped broadly into two types of cases: those affecting the internal market and those affecting the delivery of EU funds to beneficiaries in the new Member States.

#### – **Internal market**

The **Czech Republic, Estonia, Latvia, Lithuania, Poland and Slovenia** are significantly delayed in introducing the *minimum training requirements, and mutual recognition rules, for a number of professions* including healthcare professions. Professionals from those countries who would, as a result, not meet the minimum requirements, may, as a consequence, not be allowed to benefit from the right to exercise their profession in other Member States until the gap is filled.

The serious delays in the restructuring of **Malta's** ship-repair and shipbuilding industry are not in accordance with the conditions under which Malta can grant *restructuring aid* until 2008. **Slovakia** is not complying with the production limitation conditions which must be fulfilled for granting *fiscal aid* to one company in the steel sector until the end of 2009 at the latest. These two cases of non-compliance give unfair advantages to the companies concerned, requiring remedial action by Malta and Slovakia. In the absence of a satisfactory solution the Commission may be required to take the necessary measures,

and these two countries and the companies concerned risk losing the benefit of the transitional arrangements they obtained in the accession negotiations.

**Lithuania** and **Poland** are not taking the necessary measures for inspection and control of their *fisheries* fleet and for ensuring the application of EU resource and fleet management rules. The lack of proper controls in one Member State undermines the common fisheries policy as a whole, as its fishing vessels could land fish species and quantities of fish which others are not allowed to do. If this is allowed to persist upon accession, measures may be needed to protect the single market.

**Estonia** has persistently delayed the adoption of EU rules in the areas of *labour law and equal treatment of women and men*. Urgent remedial action is required, as are parallel efforts to set up the necessary institutional (control) structures and to acquaint economic operators with the new rules so as to ensure their implementation as from accession. The failure to apply these rules would deny Estonian citizens the benefit of these rules, which are aimed at improving working conditions and opportunities for men and women alike, and it would cause unequal competitive conditions between companies in Estonia and in other Member States.

In **Latvia**, there are serious delays in *computerisation and interconnectivity* with EC systems which endanger the correct operation of the *customs union*, in particular the tariff and computerised transit systems. The same applies in the area of *taxation*, where interconnectivity to the VAT Information Exchange System might not be fully operational by accession under current circumstances. There is a need for an urgent transfer of knowledge and experience, and enhanced human resources, and no slippage must occur in the procurement of equipment. Unless immediate corrective action is taken to avoid a serious risk of disruption to the smooth operation of EU customs and taxation systems at the time of accession, appropriate remedial management measures will be required.

In the field of veterinary and phytosanitary control, the adoption and implementation of the necessary veterinary legislation in **Poland** is an urgent necessity. Insufficient progress has been made to date in organising the control of the *movement of live animals* within the framework of the overall veterinary control system in Poland. This would compromise the integration of the Polish animal sector into the internal market. The implementation of the *acquis* in respect of *TSEs* and *animal waste* is a cause of serious concern in **Poland** and **Latvia**. Also in **Malta**, the measures and the infrastructure to deal with *animal waste* are not yet in place and may not be ready by accession. Specific measures may be required to prevent these failures from affecting food safety and animal health on the EU market. In the **Czech Republic**, **Hungary**, **Poland** and **Slovakia**, the current pace of upgrading will not permit all their *agri-food establishments* to meet their obligations as agreed in the accession negotiations. Specific measures will be taken to deal with non-compliant producers, for instance by imposing restrictions on the production and marketing of their products. **Poland** has not taken the necessary measures against *potato ring rot and wart disease*. If this situation is not resolved, measures will be needed to protect the rest of the EU from this serious plant disease.

The **Czech Republic** is not adequately implementing and enforcing the social and technical *acquis* relating to *road transport*, including that on access to the profession and the market, working, driving and rest periods, speed limitation devices, driving licences, safety advisers for the transport of dangerous goods, vehicle registration documents and

in particular roadside inspections. Due to insufficient administrative capacity, organisation and training, there are too few checks on driving and rest periods and in inadequate follow-up to these checks. As a consequence, unless corrective action is taken, Czech hauliers may not be operating safely and Czech operators will enjoy more favourable conditions than their competitors elsewhere in the EU, in which case appropriate measures would be required to guarantee safety and to re-establish a level playing field.

In the area of maritime safety, **Cyprus** and **Malta** both remain on the blacklist of the Paris Memorandum of understanding. Both have failed to allocate sufficient resources to the tasks arising from their obligation to carry out Flag State control on the safety of sea-going ships. In the case of Cyprus, there are also serious concerns as regards Port State control, including resources allocated to it. For both Cyprus and Malta, the implementation of these tasks requires urgent attention. If this is not remedied by accession, measures may be required to protect other Member States from the damage which lax enforcement in these two countries may cause.

#### – Delivery of EU funds

All acceding countries must reinforce efforts to set up the necessary procedures and institutions to apply the market interventions and direct payment to farmers in the context of the common agricultural policy, but there are serious concerns in particular for **Cyprus, Hungary, Malta, Poland** and **Slovakia** that functioning systems will not be in place by accession. This applies to the setting-up of a Paying Agency and (except in Cyprus) to the implementation of the Integrated Administration and Control System, which are central elements for payments of common agricultural policy funds to farmers. Unless this situation is remedied, new Member States run the risk that they will not be fully reimbursed by the EU for the payments made to their farmers.

**Cyprus** and **Malta** have not made sufficient progress yet in establishing the necessary mechanisms for external trade in agricultural products. If this is not resolved, problems will arise in several areas, including the management of export refunds for exports from these countries and the management of import licences. Such problems could have implications as regards reimbursement from EU funds, as described above.

There are serious concerns about **Hungary's** preparations for implementing rural development programmes, in particular due to the number of activities that remain to be completed and to the unclear definition of responsibilities and weak co-ordination. As a result, Hungary's programme may not be able to start as planned, delaying access of beneficiary farmers to the support measures.

As for the *fisheries market policy*, there are serious concerns about **Poland's** wish to put in place producers' organisations, as it needs to have the necessary control measures available and the administrative capacity in place. Poland's fishermen will not be able to benefit from EU market intervention until this situation is remedied.



## C. DEALING WITH GAPS

It is clear that a failure to implement the *acquis* in one or other area after accession would affect the citizens and economic actors in that country, and deny them the full benefit of membership. As guardian of the Treaties, the Commission would act to enforce the obligations of that Member State under the *acquis*, and help to restore the benefits of membership.

Because of the deep integration in the Union, such a failure would in many cases also affect negatively citizens and actors in other Member States. Therefore, in addition to enforcing the *acquis*, the Commission may also in certain cases need to take measures to remedy or neutralise such negative cross-border effects. The basis for such action is found in a number of specific provisions of the Treaty of Accession.

Action by the Commission and by the Union can take the form of remedial measures, but can also involve support measures to help a new Member State to overcome initial difficulties.

### 1. Remedial measures

When the *acquis* is not properly applied in a Member State, both private and public parties can take legal action to enforce EC law. Citizens and companies in the new Member States will be able to refer to national courts and, in the final stage, to the European Court of Justice, and their Government risks being condemned. This applies to the *acquis* which is directly applicable from the date of accession, but also to some extent to directives when they are not transposed or are transposed incorrectly.

The Commission itself also takes steps to deal with infringements of Community obligations. If a situation cannot be settled through the infringement procedure, involving a formal written exchange with the Member State in question, the Commission may refer the matter to the Court of Justice.

The Commission also intervenes directly in its capacity as executive authority, e.g. in cases of violation of competition law, or in its capacity to execute the budget, e.g. in the implementation of the structural funds. In particular, if a new Member State does not respect the procedural or substantive rules concerning *payments in agriculture* (be they direct payments to farmers or other interventions) or *payments for projects and measures under the Cohesion Fund or Structural Funds*, the Commission will not be able to release funds from the Community budget. Even if such difficulties are only of a temporary nature, they could have very serious consequences on the livelihood of citizens and economic operators in the new Member States, as well as on the overall balance of financial transfers between a new Member State and the Community budget. These consequences would result not from a specific decision by the Commission, but from the application of the existing rules and regulations applying to all present and future Member States.

In some cases, specific measures may be necessary to prevent or deal with the (immediate) negative consequences of non-compliance with the *acquis*. The possibility of taking such safeguard or management measures is already envisaged within the *acquis* itself in certain fields, e.g. in the field of *food safety*: as has been done in a number of cases in the past, the Commission can take measures to stop the sale or export of food

products from a certain region or Member State. Another example is the area of *road transport*. The conditions and procedures for adopting such measures are laid down in the specific legal instruments covering the sector in question. Typically, they can be invoked by the Commission, sometimes after consultation of the Member States, and require the existence, or threat of, an immediate problem causing serious damage.

As a last resort, the Accession Treaty contains three safeguard clauses. The first one (contained in Article 37) allows both present and new Member States to request the Commission to take measures to deal with serious and persisting difficulties in one or other economic sector. Although this safeguard is intended to deal with unforeseen economic shocks resulting from enlargement, it does not exclude cases where such shocks would be enhanced by a failure by the public administration to implement the *acquis* properly.

A second safeguard clause (Article 38) is specifically designed to deal with cases where a new Member State fails to fulfil its commitments undertaken in the accession negotiations, including the proper application of the *acquis*. If such a failure causes or risks causing a serious breach of the functioning of the internal market, the Commission may take appropriate measures to deal with the situation. Such measures may seek to ensure the proper application of the *acquis* despite the failure of the administration of the new Member State to do so. They may result in temporarily excluding this new Member State or its citizens and economic operators from the benefits of certain internal market legislation and from the benefits of membership in specific areas, in order to protect the integrity of the internal market and prevent damage to others. Such safeguard measures will stay in place until the new Member State has met its commitments. This safeguard can be applied to cases involving the internal market in the broad sense, i.e. not only the *acquis* covered in negotiating chapters 1 to 6 (goods, persons, services and capital movements; company and competition law), but also the sectoral policies covered by other negotiating chapters (e.g. agriculture, transport, telecommunications, energy, etc.) insofar as they have cross-border effects.

The third safeguard clause (Article 39) is similar to the second one but covers issues relating to mutual recognition in criminal and civil law matters.

The three types of safeguard measures based on the Accession Treaty can be taken until 1 May 2007. Where needed, measures relating to the safeguarding of the internal market (based on Article 38) and to mutual recognition in criminal and civil law matters (Article 39) can be taken already before accession and can enter into force as from accession. The Commission will not hesitate to make use of such safeguards when circumstances require.

Although the safeguard or management measures which are taken must be proportional to the extent of the problem and must be designed to cause the least disruption, in most cases their inevitable effect will be temporarily to deny the new Member States and their citizens the full benefits of membership. It is therefore in the interest of all parties to do their utmost to avoid such a situation arising by tackling the remaining gaps quickly and effectively.

## **2. Support measures**

Beyond remedial or legal action, in a number of cases specific support measures may help to improve or speed up alignment with the *acquis*. The Commission is willing to

explore all available means to assist the new Member States both before and after accession. Depending on the nature of the problem, this support could take the form of peer assistance, TAIEX training seminars, SIGMA support, twinning (light) projects or similar instruments, which can be mobilised quickly and can be focussed on well targeted issues, as foreseen by the Transition Facility.

Financing can be sought from the remaining unallocated Phare funds, as well as – from accession – from the additional funds available under the Transition Facility (*see also section D.2 below*). Equally, a number of existing specialised mechanisms (such as the Customs 2007, Fiscalis, and other programmes) can be used to address gaps in the new Member States.

## D. NEXT STEPS

### 1. Between now and accession

The acceding countries and the Commission's departments have co-operated well in identifying the remaining gaps in preparedness. All efforts must now focus on resolving the outstanding issues in the transposition and implementation of the *acquis*, so that all remaining gaps may be closed by the time of accession. Although the Commission's departments will work constructively with the acceding countries in order to identify ways and means of achieving this aim, it is the task and responsibility of the acceding countries themselves. There are only a few months left.

In view of its role as guardian of the Treaties, the Commission will continue monitoring until accession. This has also been requested by the Council. The Commission intends to concentrate on the issues requiring enhanced efforts and the specific issues of serious concern identified in this report, and to check with the acceding countries progress made since the 30 September cut-off date that was used for the Comprehensive Monitoring Reports. This follow-up to the findings of the present report must take place before 1 May 2004 and will be an essential step enabling the Commission to make proposals and take decisions on policy measures, where needed still before accession. Where circumstances require, the Commission will take the necessary policy measures, including safeguard measures, infringement proceedings or financial management measures.

**Support measures**, as referred to in point C.2 above, must be mobilised quickly on the basis of the concrete findings of the Comprehensive Monitoring Reports so that they can produce tangible results where necessary still before accession. The Commission's departments will actively pursue this task.

### 2. From accession

From accession, the Commission will assume its normal role vis-à-vis a Member State but its **monitoring** of the fulfilment of the new Member States' obligations will not diminish. It will follow different procedures and manifest itself differently, e.g. using the "internal market scoreboard" on the transposition of internal market directives instead of "regular reports". Where possible, this will be based on the on-going pre-notification of the transposition of directives through the TAIEX office. The Commission will assume its normal task of co-ordinating and enforcing the rules of the *acquis* and, where necessary, will take administrative and legal action. Citizens and economic operators will have a more direct relationship with the Commission than in the past; they will have the right to lodge complaints when they feel their national administration does not comply with the *acquis* and have them investigated. Moreover, as described above certain specific procedures such as the safeguards provided for in the Accession Treaty will remain applicable after accession.

The **Phare** programme and the support programmes for Cyprus and Malta will come to an end in the new Member States, together with the Union's two other main pre-accession assistance programmes, ISPA and Sapard, by 31 December 2003, although implementation will continue after accession.

Nevertheless, implementation of Phare programmes and their equivalents for Cyprus and Malta, decided before 1 January 2004, will continue over the following three years. This implementation will be carried out under the full authority and responsibility of the National Fund and the implementing agencies of the new Member States. The Commission will waive ex-ante control for tendering and contracting after having verified that those structures in the acceding countries comply with the criteria laid down in the Regulation for co-ordination of pre-accession aid<sup>1</sup>. The Accession Treaty (Article 33 of the Act) stipulates that acceding countries have to obtain this waiver by accession at the latest; failure to meet this target could result in the suspension or even loss of funds.

As from accession, further targeted assistance to improve implementation and enforcement of the *acquis* will be available to the public administrations of the new Member States through the **Transition Facility**. The Transition Facility is a new temporary instrument to continue assisting the new Member States to develop and strengthen their administrative capacity to implement and enforce Community legislation in a number of key areas and to foster exchange of best practice among peers. A total amount of € 426 million (2004 prices) is available for the first three years after accession. The Transition Facility resembles Phare institution-building actions not only in its objective, but – in the interest of continuity, simplicity and efficiency – also in the rules for its implementation by the new Member States, which will follow those of Phare as closely as possible.

The **ISPA** and **Sapard** programmes (and the economic and social cohesion component of the Phare programme) will be succeeded by the larger Cohesion Fund and the European Agricultural Guidance and Guarantee Fund (EAGGF) respectively. A smooth transition will be assured by on-going actions in the fields of transport and environment under ISPA and on rural development under Sapard being subsumed into these programmes. In addition, projects in new Member States will be eligible for EU structural funding from the European Regional Development Fund and the European Social Fund as of 1 January 2004.

With the entry into force of the Amsterdam Treaty in May 1999, the **Schengen *acquis***, including the (two-stage) implementation mechanisms provided for in the Schengen Agreement, is integrated into the framework of the European Union. However, accession to the EU will not immediately lead to the lifting of internal border controls, but will be subject to a separate Council decision. The decision confirming the capacity of each new Member State to implement the Schengen *acquis* will take into account all conditions and procedures applied to the Schengen cooperation, on the same basis as for the current Member States.

A Schengen Facility was created for the purpose of addressing shortcomings identified in the preparation for participating in Schengen. It aims at strengthening infrastructure and equipment for implementing the Schengen *acquis*, with special emphasis on enhancing external border control. The Schengen Facility, which amounts to € 963 million (2004 prices) will be available for seven beneficiary new Member States over the first three years after their accession.

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<sup>1</sup> Council Regulation (EC) No 1266/1999 of 21 June 1999 on coordinating aid to the applicant countries in the framework of the pre-accession strategy and amending Regulation (EEC) No 3906/89 (OJ L 161, 26.6.1999, p. 68).

The ten acceding countries will be quickly and fully integrated into the existing EU procedures of **budgetary surveillance and economic policy co-ordination**, applying the same rules as for existing Member States. In particular, they will be already included in the 2004 update of the Broad Economic Policy Guidelines, with a two-year horizon for 2004-5. There will be country-specific recommendations and the acceding countries will for the first time be included in the Implementation Report on the Broad Economic Policy Guidelines in January 2005.

With respect to budgetary surveillance, the reporting deadlines (before 1 March and before 1 September) on fiscal notifications are expected to be complied with in 2004. As from accession, where necessary, the Commission could start an Excessive Deficit Procedure.

The new Member States are invited to submit by 15 May 2004 their first Convergence Programmes, which may be an update of the Pre-Accession Economic Programmes. The new Convergence Programmes should be submitted, in line with the Code of Conduct, between mid-October and 1 December 2004.

With respect to the exchange rate, which is an important aspect of the EU policy co-ordination framework, upon accession, new Member States are to treat their exchange rate policy as a matter of common interest as required by the EC Treaty. A new Member State may join the exchange rate mechanism ERM-II upon request after accession, subject to agreement on the central parity and fluctuation band. However, exchange rate regimes should not be looked at in isolation and participation in ERM-II should contribute to achieve real and nominal convergence. Although ERM-II provides a degree of flexibility, staying outside the ERM-II for some time may be useful in the light of large and volatile capital flows, large fiscal imbalances, or risks of large economic shocks.

The acceding countries will participate from accession in the economic and monetary union “with a derogation”, meaning that they have not yet fulfilled the criteria for adopting the single currency. The acceding countries have presented strategies to achieve the objective of joining the euro area as the ultimate goal. These plans vary from one country to the other, reflecting different initial economic conditions and exchange-rate regimes. The EC Treaty does not specify a timetable, but requires Member States to pursue policies geared at a high degree of sustainable convergence. This will be examined at least every two years, or at the request of a Member State with a derogation. It is the intention to present such an assessment in a so-called convergence report for the first time at the end of 2004.

## E. CONCLUSIONS

The Commission has continuously monitored the progress made by the acceding countries to meet the requirements of membership over a number of years. Findings of this thorough monitoring exercise were last publicly summed up in the 2002 regular reports and strategy paper. Two monitoring exercises were presented to the Council in February and May 2003 in the context of the follow-up of negotiations. The Commission concludes this process with a set of Comprehensive Monitoring Reports for each of the acceding countries, looking in particular at their ability to meet the obligation of applying the full *acquis* from the first day of membership.

These reports confirm that acceding countries have made special efforts over the last year to complete their long-standing preparations for membership, demonstrating their commitment to apply the *acquis* from 1 May 2004. They have reached a very high degree of alignment, and generally deserve to be commended for these achievements. The monitoring exercise has proven to be an effective tool in this context and has contributed to an acceleration of preparations.

In this comprehensive exercise, the Commission has not been confronted with any major surprises or last minute discoveries. The monitoring exercise confirms previous analyses and records the overall progress made since the last Regular Reports published in October 2002.

In the light of the detailed findings described in this report, it can be concluded that, on the whole, the acceding countries are expected to be ready for accession in the very large majority of areas, even if minor adjustments are still needed in some cases. At the same time, a number of issues remains to be tackled which require enhanced efforts between now and accession.

There are a limited number of issues of serious concern. Following this report the Commission will individually alert each of the acceding countries to the specific identified concerns by issuing warning letters and organising the appropriate consultations. Without immediate and decisive action, the countries in question will most likely not be able to fulfil their obligations of membership in those specific areas and their citizens and economic operators will not enjoy the full benefits of EU membership. Such specific issues have been found in all acceding countries, affecting between one and four *acquis* chapters depending on the countries. All efforts must now focus on resolving the outstanding issues in the transposition and implementation of the *acquis*, so that all remaining gaps may be closed by the time of accession. This can be achieved. Where appropriate, the Commission is ready to support the acceding countries' administrations with targeted assistance that can be mobilised quickly.

Together with the acceding countries, the Commission will continue to monitor the remaining issues in the months leading up to accession. Where it is found that outstanding tasks are not completed as necessary before accession, the Commission is determined to take the necessary measures, where needed still before accession, to deal with such a situation.

The preparation of the acceding countries has reached an advanced stage. The Commission is confident that enlargement will take place on 1 May 2004 under good conditions. It will, however, not hesitate to use all means it has at its disposal to ensure

the proper implementation of the Union's rules and policies as is its role as guardian of the treaty to the benefit of all Member States of the Union.



## **ANNEXES**

## ANNEX: CONCLUSIONS OF THE COMPREHENSIVE MONITORING REPORTS ON THE CZECH REPUBLIC, ESTONIA, CYPRUS, LATVIA, LITHUANIA, HUNGARY, MALTA, POLAND, SLOVENIA AND SLOVAKIA

### *Czech Republic*

The Czech Republic has broadly maintained macroeconomic stability. However, public finances have deteriorated. The Czech Republic continued on its reform path, albeit hesitantly.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. The continued deterioration of the general government deficit led the government to undertake steps towards the consolidation of the public finances and to present a set of measures aiming at bringing the deficit down to 4% by 2006. A deeper and a more comprehensive reform affecting the social benefits and the pension system and healthcare is needed. The Czech Consolidation Agency resumed the selling off of bad assets to private investors. This process should accelerate in order to free the economy from misallocated resources.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Czech public administration and judiciary, but there is room for further improvements. In the field of public administration, sufficient resources should be allocated to the implementation of the Civil Service Act, which will enter into force on 1 January 2005. As regards the judicial system, a key area for further improvement is the reduction in length of court proceedings. The fight against corruption should continue to receive high priority, in particular the actual prosecution of corruption cases needs to be stepped up.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that the Czech Republic has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures, new approach legislation and the non-harmonised area in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; the banking sector, investment services, securities markets and the protection of personal data in the area of *freedom to provide services*; capital movements and payments, and payment systems related to the *free movement of capital*; *company law* and accounting; and anti-trust rules in *competition policy*. In the area of *agriculture*, the Czech Republic is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas, in most common market organisations, as regards animal disease control in the veterinary area, and in rural development; and in *fisheries*.

The Czech Republic is also expected to be in a position to implement the *acquis* by accession in: most areas in the *transport* sector; *taxation*; *economic and monetary union*; *statistics*; labour law, equal treatment of women and men, social dialogue, public health, employment policy, social inclusion and social protection in the area of *social policy and*

*employment*; the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; the postal services sector in the area of *telecommunications and information technologies*; culture in the area of *culture and audio-visual policy*; territorial organisation and programming in the area of *regional policy and co-ordination of structural instruments*; horizontal legislation, air quality, waste management, industrial pollution and risk management, water quality, chemicals and genetically modified organisms, noise and nuclear safety and radiation protection in the area of *environment* policy; safety-related measures, non-safety measures and consumer organisations in terms of *consumer and health protection*; almost all aspects of *justice and home affairs*; *customs union*; the common commercial policy, and humanitarian aid and development policy in the *external relations* *acquis*; *common foreign and security policy*; external audit and protection of the EC financial interests in the area of *financial control*; and *financial and budgetary provisions*.

Secondly, in certain areas the Czech Republic partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation and public procurement in the area of *free movement of goods*; in the area of *free movement of services*, the fields of insurance, information society services, and the right of establishment and the freedom to provide non-financial services; in the fields of *free movement of capital*, the fight against money laundering; within the area of *company law*, the protection of intellectual and industrial property rights; and state aid rules in *competition policy*. In the *agriculture* area it concerns the Paying Agency, the Integrated Administration and Control System, trade mechanisms, the common market organisations for sugar, wine and alcohol, and beefmeat, and nearly all phytosanitary and veterinary issues.

This also includes the fields of: health and safety, the European Social Fund and anti-discrimination in the area of *social policy and employment*; the *telecommunications* sector; audio-visual policy in the area of *culture and audio-visual policy*; institutional structures, the legislative framework and financial management and control in the area of *regional policy and co-ordination of structural instruments*; nature protection in the area of *environment* policy; market surveillance in the area of *consumer and health protection*; the fight against fraud, corruption and money laundering, and asylum in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries; and public internal financial control and control over structural action expenditure in the area of *financial control*.

Thirdly, the Czech Republic must take immediate and decisive action to address three issues of **serious concern** in three chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *free movement of persons*, relating to the Czech Republic's preparations for mutual recognition of qualifications of certain professions, including in the healthcare sector. In the field of *agriculture*, it concerns progress in the upgrading of agri-food establishments in order to meet public health requirements. Finally, it concerns the field of road *transport*, where the implementation of the social and technical *acquis* should be considerably reinforced.

## *Estonia*

Against the background of weak external demand, macroeconomic performance in Estonia remained solid but the current account deficit widened appreciably. The authorities adhered to their reform path, particularly in the areas of pension reform and financial supervision.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. The expansionary fiscal policy, notably during 2002 and 2003, at the level of the local and central governments poses a risk to macroeconomic stability, particularly in the light of a widening current account deficit. Active labour market policies are being pursued to address the unemployment problem and progress to-date has been satisfactory. The restructuring of the oil-shale sector is advancing, but there has been no further liberalisation of the energy market.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Estonian public administration and judiciary, but there is room for further improvements. In the field of public administration, weaknesses in the conditions of service and career structures should be improved, as well as co-ordination across the civil service. A number of further reforms remain to be made to the judicial system, and will partly result from the new Code of Criminal Procedure, due to enter into force in July 2004. Estonia should continue to improve the effectiveness of its anti-corruption measures.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Estonia has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures, and new approach legislation in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; the banking sector and insurance in the area of *freedom to provide services*; capital movements and payments, and payment systems related to the *free movement of capital*; *company law* and accounting; and *competition policy*. In the area of *agriculture*, Estonia is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas, in most common market organisations, in rural development, and in the veterinary field in areas such as animal disease control, zootechnics and animal welfare; and in *fisheries*, in the areas of state aid and international agreements.

Estonia is also expected to be in a position to implement the *acquis* by accession in : the majority of the *transport* sector; most areas in the field of *taxation*; *economic and monetary union*; *statistics*; health and safety, social dialogue, employment policy, social inclusion and social protection in the area of *social policy and employment*; the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; *culture and audio-visual policy*; programming for *regional policy and co-ordination of structural instruments*; horizontal legislation, industrial risk management, water quality, chemicals, genetically modified organisms and noise in the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; almost all aspects of *justice and home affairs*; *customs*

*union*; the common commercial policy, and humanitarian aid and development policy in the *external relations acquis*; *common foreign and security policy*; most aspects of *financial control*; and the area of *financial and budgetary provisions*.

Secondly, in certain areas Estonia partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation on the *free movement of goods*, as well as public procurement and the non-harmonised area; in the area of *free movement of services*, the fields of investment services and securities markets, protection of personal data, information society services, and the right of establishment and the freedom to provide non-financial services; in the fields of *free movement of capital*, the reinforcement of its efforts in the fight against money laundering; and, within the area of *company law*, the protection of intellectual and industrial property rights. In the *agriculture* area it concerns the Paying Agency, the Integrated Administration and Control System (IACS), trade mechanisms, the common market organisation for milk, TSEs and animal by-products, the veterinary control system, trade in live animals and animal products, public health in agri-food establishments, common measures, animal nutrition and phytosanitary issues; and most areas of the *fisheries* policy.

This also includes the fields of: air and maritime *transport*, *direct taxation*; public health, the European Social Fund, and anti-discrimination in the area of *social policy and employment*; *telecommunications and information technologies*, including the postal services sector; the legislative framework, institutional structures and financial management and control for *regional policy and co-ordination of structural instruments*; legislative alignment and implementation in the air quality, waste management, industrial pollution, nature protection, and nuclear safety and radiation protection areas of *environment* policy; market surveillance and non-safety measures in the area of *consumer and health protection*; data protection, and the fight against fraud, corruption and money laundering in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries; and the protection of EC financial interests in the area of *financial control*.

Thirdly, Estonia must take immediate and decisive action to address three issues of **serious concern** in two chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *free movement of persons*, relating to Estonia's preparations for mutual recognition of qualifications for certain professions in the healthcare sector. It also concerns the field of *social policy and employment*, as regards labour law, and equal treatment of women and men.

### **Cyprus**

The Cyprus economy slowed down in 2002 - although remaining resilient - while inflation, the current account and the government deficit deteriorated. Structural reform has continued slowly but some long-term issues remain.

As regards the areas where last year's report suggested improvements, some progress has been made, but challenges remain. Liberalisation of the telecom, energy, air transport and postal services by 2003 has been implemented in some sectors, but remains to be put into practice in others. Fiscal consolidation went markedly off target and the current account

deficit widened. Progress has been achieved in financial supervision but further improvements remain necessary. As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Cypriot public administration and judiciary, but there is room for further improvements. In the field of public administration, the impartial character of the civil service needs to be strengthened and weaknesses as regards training and staffing concerning a number of bodies implementing the *acquis* need to be addressed. In the field of the judiciary, the length of court proceedings should be reduced to ensure the proper enforcement of the *acquis*. Cyprus should continue to fight corruption on the basis of a comprehensive anti-corruption policy, including regulations on the funding of political parties.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Cypriot public administration and judiciary, but there is room for further improvements. In the field of public administration, the impartial character of the civil service needs to be strengthened and weaknesses as regards training and staffing concerning a number of bodies implementing the *acquis* need to be addressed. In the field of the judiciary, the length of court proceedings should be reduced to ensure the proper enforcement of the *acquis*. Cyprus should continue to fight corruption on the basis of a comprehensive anti-corruption policy, including regulations on the funding of political parties.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Cyprus has reached a **high level of alignment with the acquis** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession : horizontal and procedural measures, new approach legislation, public procurement and the non-harmonised area in the *free movement of goods* chapter; mutual recognition of professional qualifications, citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; the banking sector and insurance sector, the protection of personal data, the right of establishment and the freedom to provide non-financial services in the area of *freedom to provide services*; *free movement of capital*, including money laundering; *company law* and accounting; and *competition policy*. In the area of *agriculture*, Cyprus is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas including the Integrated Administration and Control System, in the common market organisations, in rural development, and in the veterinary issues of animal disease control, trade in live animals and animal products, animal welfare and zootechnics; and in *fisheries*, in the areas of structural actions, market policy, state aid and international agreements.

Cyprus is also expected to be in a position to implement the *acquis* by accession in: trans-European transport networks in the area of *transport policy*; *taxation*; *economic and monetary union*; *statistics*; labour law, equal treatment of women and men, health and safety at work, social dialogue, employment policy, social inclusion and social protection in the area of *social policy and employment*; efficiency and renewable energy, nuclear energy and nuclear safety in the *energy sector*; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; culture in the area of *culture and audio-visual policy*; the legislative framework, programming and financial

management and control for *regional policy and co-ordination of structural instruments*; horizontal legislation, air quality, waste management, industrial pollution and risk management, water quality, chemicals, noise and nuclear safety and radiation protection in the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; most aspects of *justice and home affairs*; *customs union*; the common commercial policy, humanitarian aid and development policy in the *external relations* *acquis*; *common foreign and security policy*; external audit, control over structural action expenditure and the protection of EU financial interests in *financial control*; and *financial and budgetary provisions*.

Secondly, in certain areas Cyprus partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation relating to the *free movement of goods*; in the area of *free movement of services*, the fields of investment services and securities markets, and information society services; and, within the area of *company law*, the protection of intellectual and industrial property rights. In the *agriculture* area it concerns the Farm Accountancy Data Network, the veterinary control system, transmissible spongiform encephalopathies (TSEs) and animal by-products, public health in agri-food establishments, common measures, animal nutrition and some aspects of phytosanitary legislation; and as regards *fisheries* policy, the resource and fleet management, and inspection and control.

This also includes the fields of: road transport and air transport in the area of *transport policy*; public health, the European Social Fund and anti-discrimination in the area of *social policy and employment*; security of supply and competitiveness and the internal energy market in the area of *energy*; *telecommunications and information technologies*, including postal services; audio-visual policy in the area of *culture and audio-visual policy*; institutional structures in the field of *regional policy and co-ordination of structural instruments*; nature protection and genetically modified organisms in the area of *environment* policy; market surveillance and non-safety related measures in the area of *consumer and health protection*; visa policy and asylum policy in the area of *justice and home affairs*; *external relations*, as regards screening of bilateral agreements with third countries; and public internal financial control in the area of *financial control*.

Thirdly, Cyprus must take immediate and decisive action to address three issues of **serious concern** in two chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *agriculture*, in particular Cyprus's preparations to put in place its Paying Agency, and to prepare for the application of external trade mechanisms. It also concerns the field of *transport policy*, as regards maritime safety.

### ***Latvia***

Economic activity has remained firm despite a weak external environment. The economic reform path has been sustained.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. Positive developments have taken place as regards active labour market policies, but several structural rigidities remain. Fiscal policy turned into a more expansionary phase in 2002. Overall, appropriate conditions to attract foreign

investment have been established, but the environment for the creation of new enterprises remains somewhat problematic. Some progress has been made in improving administrative and judicial capacity as regards to the business community.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Latvian public administration and judiciary, but there is room for further improvements. In the field of public administration, it is important to harmonise the civil service management structure on the basis of transparent rules and practices in staff matters, and to reinforce accountability of public agencies. Particular attention needs to be paid to the reform of the judiciary, and in particular the completion of the legislative framework, especially the urgent need to adopt the new Law on Judicial Power, as well as the Law on Criminal Procedure, and to the implementation of legislation on Court administration. The fight against corruption should continue to receive high priority. In particular, further efforts are needed to complete the legislative basis and to consolidate the new Anti-Corruption Bureau.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Latvia has reached a **high level of alignment with the acquis** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession : horizontal and procedural measures, new approach legislation in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; the banking sector in the area of *freedom to provide services*; payment systems and the fight against money laundering related to the *free movement of capital*; *company law* and accounting; and state aid rules in *competition policy*. In the area of *agriculture*, Latvia is expected to be in a position by accession to implement the *acquis* in some horizontal areas, in most common market organisations, in rural development, and in some veterinary issues, notably zootechnics and animal nutrition; and in *fisheries*, in the areas of structural actions, state aid and international agreements.

Latvia is also expected to be in a position to implement the *acquis* by accession in : most areas of the *transport* sector; excise duties and direct *taxation*; *economic and monetary union*; *statistics*; most areas of *social policy and employment*; most areas in the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; *culture and audio-visual policy*; programming in relation to *regional policy and co-ordination of structural instruments*; the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; most aspects of *justice and home affairs*; *customs* legislation; the common commercial policy, humanitarian aid and development policy in the *external relations* *acquis*; *common foreign and security policy*; public internal *financial control*; and *financial and budgetary provisions*.

Secondly, in certain areas Latvia partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation on the *free movement of goods*, as well as public procurement and the non-harmonised area; in the area of *free movement of services*, the fields of insurance, investment services and securities markets, the



protection of personal data and information society services, and the right of establishment and the freedom to provide non-financial services; in the fields of *free movement of capital*, the remaining restrictions regarding capital movements and payments; within the area of *company law*, the protection of intellectual and industrial property rights; and anti-trust rules in *competition policy*. In the *agriculture* area it concerns the Paying Agency, the Integrated Administration and Control System and trade mechanisms, the common market organisations for milk, sugar and beefmeat, the veterinary control system, public health in agri-food establishments, trade in live animals and animal products, animal disease control, common measures including residues, animal welfare and phytosanitary issues; and resource and fleet management and inspection and control, and market policy in the *fisheries* area.

This also includes the fields of: air *transport*; VAT, including administrative capacity, in *taxation*; public health, the European Social Fund, and anti-discrimination in the area of *social policy and employment*; competitiveness and the internal *energy* market; *telecommunications and information technologies*, including the postal services sector; legislative framework, financial management and control as well as institutional structures regarding *regional policy and co-ordination of structural instruments*; market surveillance and non-safety measures in the area of *consumer and health protection*; data protection, migration, asylum, the fight against fraud and corruption, and drugs in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries; and external audit, control over structural action expenditure and the protection of EC financial interests in the area of *financial control*.

Thirdly, Latvia must take immediate and decisive action to address four issues of **serious concern** in four chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *free movement of persons*, relating to Latvia's preparations for the general system of mutual recognition of qualifications and the mutual recognition and training for certain professions, including in the healthcare sector. It also concerns the field of *agriculture*, regarding the area of TSE (transmissible spongiform encephalopathies) and animal by-products. It concerns *taxation* as regards administrative co-operation and mutual assistance in the field of VAT, in particular the interconnectivity system. Finally, it concerns administrative and operational capacity in the *customs union* area, as regards certain information technology systems.

### ***Lithuania***

In spite of lacklustre growth in the EU, macroeconomic performance in Lithuania remained particularly strong during 2002. The authorities actively pursued their reform path, although a number of areas — including pensions and fiscal structural reform — still require progress.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. Although fiscal policy remains firmly committed to further consolidation, several factors could put at risk the government's fiscal objective, and hence call for the formulation of a comprehensive fiscal strategy that takes into account all pending financial obligations of the central and local governments. The problem of high and persistent unemployment is being addressed through active labour market policies but implementation of these policies is crucial. Pension reform has advanced with the adoption of legislation by parliament, but the current plans fail to

address the problem of an impending social security deficit. Considerable progress has been achieved in improving administrative and judicial capacity, specifically pertaining to the legal framework for bankruptcy and enterprise restructuring and market entry, but the authorities must proceed to complete their reform programme without delay.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Lithuanian public administration and judiciary but there is room for further improvements. In the field of public administration, a number of areas should receive particular attention. These include the recruitment and retention of both skilled professionals, and lower-ranking and local civil servants, to implement the *acquis* including the management of the Structural Funds. Additional staff, training and equipment are needed to complement recent reforms of the judiciary and legal system, which are now nearing completion. The fight against corruption should continue to receive high priority. While the legal framework and institutional setting is being strengthened, efforts should be maintained to tackle corruption in a systematic and effective way and to ensure adequate prevention. As far as translation of the *acquis* into Lithuanian is concerned, the number of revised texts prepared by Lithuania must increase greatly in the coming period up to accession.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Lithuania has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures, new approach sectoral legislation as well as public procurement and the non-harmonised area in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems in terms of *free movement of persons*; the banking sector, the right of establishment and the freedom to provide non-financial services as well as the protection of personal data and information society services in the area of *freedom to provide services*; capital movements and payments in the field of *free movement of capital*; *company law* and accounting; and *competition policy*. In the area of *agriculture*, Lithuania is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas. It is also expected to be in a position to implement the *acquis* in most common market organisations, in rural development and in certain veterinary issues, notably animal disease control measures, trade in live animals and animal products, zootechnics and animal nutrition; and in *fisheries*, in the areas of state aid and international agreements.

Lithuania is also expected to be in a position to implement the *acquis* by accession in : the *transport* sector; in most areas in the field of *taxation*; *economic and monetary union*; *statistics*; labour law, equal treatment of women and men, health and safety at work, social dialogue, employment policy, social inclusion and social protection in the field of *social policy and employment*; in the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; *culture and audio-visual policy*; the legislative framework and programming in the field of *regional policy and co-ordination of structural instruments*; the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; many aspects of *justice and home affairs*; customs legislation in the field of *customs union*; the common

commercial policy, the humanitarian aid and development policy in the *external relations acquis*, the *common foreign and security policy*; most aspects of *financial control*; *financial and budgetary provisions*.

Secondly, in certain areas, Lithuania partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation on the *free movement of goods*; in the area of *free movement of services*, the fields of insurance, investment services and securities markets; in the field of *free movement of capital*, the completion of alignment in the area of payment systems and the reinforcement of efforts in the fight against money laundering; and, within the area of *company law*, the protection of intellectual and industrial property rights. In the *agriculture* area, it concerns the Paying Agency, the Integrated Administration and Control System (IACS), trade mechanisms, the common market organisations for milk and beefmeat, transmissible spongiform encephalopathies (TSEs) and animal by-products, the veterinary control system, public health in agri-food establishments, common measures, animal welfare and the phytosanitary field; and structural actions and market policy in the *fisheries* policy.

This also includes the fields of: *taxation*, as regards administrative co-operation and mutual assistance; public health, European Social Fund and anti-discrimination in the area of *social policy and employment*; *telecommunications and information technologies*, including the postal sector; finalising the delivery system of its institutional structures and finalising its procedures for financial management and control in the field of *regional policy and co-ordination of structural instruments*; market surveillance and non-safety measures in the area of *consumer and health protection*; migration, asylum, police co-operation and the fight against organised crime, money laundering, and fraud and corruption in the area of *justice and home affairs*; operational and administrative capacity in the field of *customs union*; *external relations* as regards bilateral agreements with third countries; and control over structural action expenditure in the area of *financial control*.

Thirdly, Lithuania must take immediate and decisive action to address two issues of **serious concern** in two chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *free movement of persons*, relating to Lithuania's preparations for mutual recognition of qualifications. It also concerns the area of *fisheries*, as regards inspection and control in relation to resource and fleet management.

### ***Hungary***

The overall macro-economic equilibrium of the Hungarian economy has deteriorated, in particular as regards the composition of GDP, external accounts and exchange and interest rate stability. A significant budget deficit in 2002 has been addressed by a tighter albeit very ambitious fiscal policy stance in 2003, while inconsistent monetary and exchange rate policies added to the strain in the policy mix. The economic reform path is being pursued in a credible manner, through the privatisation of some remaining state-owned companies, a stepwise liberalisation of administered prices and the broad completion of the progressive pension reform.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. The general government deficit is on a downward

trend, following a redirection of fiscal policy since 2003, but more progress is needed, also as regards the structure of fiscal reform. Health care sector reform is being addressed in the framework of a ten years' programme, which received a boost through the admission of private general practitioners' practices in 2002, and a new law adopted in 2003 opening the way for large-scale privatisation of healthcare assets, including hospitals. Wage developments in 2003 have started to moderate, coming down from the high growth rates of 2001 and 2002, especially in the corporate sector, with the economy slowly adapting to the new low-inflation environment. Nevertheless, even in 2003 real wage growth continues to exceed productivity growth by a considerable margin.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Hungarian public administration and judiciary, but there is room for further improvements. In the field of public administration, the general reform should be continued in the fields of regional development, local self-government and state administration, and transparency in personnel matters should be improved. A number of further steps remain to be taken as regards the judicial system, such as to ensure an adequate financing of the judiciary to establish further regional courts and to improve the legal aid system. The fight against corruption should continue to receive high priority, in particular through the rapid implementation of the "glass-pocket" programme that was adopted in April 2003.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Hungary has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures and new approach legislation in the *free movement of goods* chapter; the *free movement of persons* chapter; the banking and insurance services sectors, investment services and securities markets, the protection of personal data, the right of establishment and the freedom to provide non-financial services in the area of *freedom to provide services*; the *free movement of capital* chapter, including money laundering; *company law* and accounting; and *competition policy*. In the area of *agriculture*, Hungary is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas, in most common market organisations and, in the veterinary field, as regards the requirements in the areas of animal disease control, trade in live animals and animal products, animal welfare, zootechnics and animal nutrition; and in *fisheries* in general.

Hungary is also expected to be in a position to implement the *acquis* by accession in: the *transport* sector except for rail transport; all areas in the field of *taxation; economic and monetary union* and *statistics*; most areas of *social policy and employment*; the *energy* sector; *industrial policy; small and medium-sized enterprises; science and research; education and training*; culture in the *culture and audio-visual policy* chapter; in relation to programming within the *regional policy and co-ordination of structural instruments* chapter; horizontal legislation, air and water quality, waste management, industrial risk management, chemicals and genetically modified organisms, noise, and nuclear safety and radiation protection in the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; most aspects of *justice and home affairs; customs union*; the common commercial policy, humanitarian

aid and development policy in the *external relations acquis*; *common foreign and security policy*; *financial and budgetary provisions*; and external audit in the area of *financial control*.

Secondly, in certain areas Hungary partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation on the *free movement of goods*, as well as public procurement and the non-harmonised area; in the area of *free movement of services*, the field of information society services; and, within the area of *company law*, the protection of intellectual and industrial property rights. In the *agriculture* area it concerns trade mechanisms, the common market organisations for sugar and wine and, in the veterinary field, transmissible spongiform encephalopathies (TSEs) and animal by-products, the veterinary control system, common measures, and certain phytosanitary issues.

This also includes the fields of: rail *transport*; the European Social Fund and anti-discrimination in the area of *social policy and employment*; *telecommunications and information technologies*, including postal services; the audio-visual area in the chapter on *culture and audio-visual policy*; the legislative framework, institutional structures and financial management and control in the chapter on *regional policy and co-ordination of structural instruments*; legislative alignment and implementation in the nature protection and industrial pollution areas of *environment* policy; market surveillance and non-safety related measures in the area of *consumer and health protection*; external borders and asylum in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries; and public internal financial control, control over structural action expenditure and the protection of EC financial interests in the area of *financial control*.

Thirdly, Hungary must take immediate and decisive action to address four issues of **serious concern** in one chapter of the *acquis* if it is to be ready by the date of accession.

This concerns the *agriculture* chapter, relating to Hungary's preparations to set up its Paying Agency, to implement the Integrated Administration and Control System, to prepare for the implementation of rural development measures and to ensure public health standards in agri-food establishments.

### ***Malta***

Economic activity remained weak, affected by low external demand and the downturn in the tourism sector. Progress with structural reforms has been mixed.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. Very substantial efforts are necessary to guarantee the sustainability of public finances in the medium term. Although restructuring of public enterprises is under way, more far-reaching measures need to be implemented, leading to higher productive efficiency and supporting fiscal consolidation. The level of non-performing loans in the banking sector remains high, although several steps have been taken to improve supervision and credit assessment.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Maltese public administration and judiciary, but there is room for further improvements. In the field of public administration, the current efforts to bring about more efficiency and accountability across the public service need to be continued. The reform of the judiciary needs to be pursued in order to further decrease the backlog of pending judiciary cases and improve the functioning of the small claims tribunal. As regards the fight against corruption, Malta should adopt a comprehensive anti-corruption strategy, taking into account the recommendations of the Council of Europe's Group of States against Corruption. As far as translation of the *acquis* into Maltese is concerned, the number of revised texts prepared by Malta must increase greatly in the coming period up to accession.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Malta has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures, new approach and old approach legislation in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; banking, insurance, investment services and securities markets, protection of personal data and information society services in the area of *freedom to provide services*; the *free movement of capital*, including money laundering; *company law* and accounting; anti-trust legislation in the area of *competition*. In the area of *agriculture*, Malta is expected to be in a position by accession to implement the *acquis* as regards quality policy and state aid; in common market organisations as regards arable crops, milk, sheepmeat and pigmeat, and eggs and poultry, and in some veterinary issues including animal disease control and trade in live animals and animal products, animal welfare and zootechnics; and in *fisheries*, in the areas of resource and fleet management, inspection and control, market policy, state aid and international agreements.

Malta is also expected to be in a position to implement the *acquis* by accession in: the *transport* sector as regards the trans-European transport networks, road and air transport; VAT, excise duties, and administrative co-operation and mutual assistance in the field of *taxation*; *economic and monetary union*; *statistics*; labour law, equal treatment of women and men, social dialogue, employment policy, social inclusion and social protection in the area of *social policy and employment*; the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; *culture and audio-visual policy*; *regional policy and co-ordination of structural instruments* as regards institutional structures and programming; in the *environment* chapter as regards horizontal legislation, air quality, water quality, industrial pollution and risk management, chemicals and genetically modified organisms, noise, and nuclear safety and radiation protection; safety-related measures and consumer organisations in terms of *consumer and health protection*; almost all aspects of *justice and home affairs*; *customs union*; the common commercial policy and humanitarian aid and development policy in the *external relations acquis*; *common foreign and security policy*; *financial control*; and *financial and budgetary provisions* .

Secondly, in certain areas Malta partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes public procurement and the non-harmonised area on the *free movement of goods*; requirements for mutual recognition of professional qualifications in terms of *free movement of persons*; the right of establishment and the freedom to provide non-financial services in the area of *free movement of services*; and, within the area of *company law*, the protection of intellectual and industrial property rights. In the *agriculture* area, it concerns organic farming and the farm accountancy data network; the common market organisations for wine and alcohol, beefmeat, fruit and vegetables and olive oil; rural development; in the veterinary field, as regards veterinary control systems, public health in agri-food establishments, common measures, animal nutrition; phytosanitary issues; and as regards structural actions in the *fisheries* policy.

This also includes the fields of: direct *taxation*; health and safety at work, public health, the European Social Fund, and anti-discrimination in the area of *social policy and employment*; *telecommunications and information technologies* including postal services; the legislative framework and financial management and control for *regional policy and co-ordination of structural instruments*; legislative alignment and implementation in waste management and nature protection as concerns *environment* policy; market surveillance and non-safety measures in the area of *consumer and health protection*; the Schengen Action Plan, and asylum in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries.

Thirdly, Malta must take immediate and decisive action to address six issues of **serious concern** in three chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of state aid in the *competition policy* chapter, where Malta must enhance its efforts to implement its commitments regarding the restructuring of its shipyards. It also concerns the field of *agriculture*, as regards the setting up of a Paying Agency, the implementation of the Integrated Administration and Control System, external trade mechanisms, and transmissible spongiform encephalopathies (TSEs) and animal waste treatment. Finally, it concerns the *transport* field, as regards maritime safety.

### ***Poland***

Poland has maintained a stable macroeconomic situation and is experiencing a gradual recovery, mainly driven by external demand. The reform path has nearly come to a halt since last year's Report.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. The Polish authorities have shown so far some reluctance to tackle the needed fiscal adjustment. A deep restructuring and reduction of public expenditure are, however, crucial in order to further improve the policy mix, reverse the rapid rise in public debt, and prepare Poland's public finances for accession. The Polish authorities should ensure that any decision on the use of the revaluation reserve does not undermine the financial independence of the central bank. Progress in restructuring heavy industries, energy distribution and agriculture has been modest since last year and considerable efforts still need to be made to advance the reform agenda in this area. The new insolvency law adopted in February upgrades the bankruptcy and

liquidation framework and brings it into line with the requirements of a modern market economy. Little progress has been achieved as regards the functioning of the land registry, and the authorities need to pursue their efforts at modernising the system.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Polish public administration and judiciary, but there is room for further improvements. In the field of public administration, the number of civil servants appointed from open competitions should increase, while co-ordination across the civil service should be improved and structures dealing with European integration need strengthening. Efforts are still needed to improve the efficiency and transparency of the judiciary, with particular attention to further developing and organising the system of legal aid. The fight against corruption should continue to receive high priority, in particular through strengthening co-ordination structures and administrative support to ensure an effective implementation of the anti-corruption strategy.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Poland has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures as well as new approach sectoral legislation in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; personal data protection and information society services in the area of *freedom to provide services*; capital movements and payments, and payment systems related to the *free movement of capital*; *company law* and accounting; and the anti-trust area in the *competition policy* chapter. In the area of *agriculture*, Poland is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas, in most common market organisations, and in veterinary issues as regards animal disease control and zootechnics.

Poland is also expected to be in a position to implement the *acquis* by accession in: most areas of the *transport* sector; the areas of direct taxation as well as administrative co-operation and mutual assistance in the field of *taxation*; most areas related to *economic and monetary union*; *statistics*; equal treatment of women and men, social dialogue, employment policy, social inclusion and social protection in the area of *social policy and employment*; the *energy* sector; industrial strategy in the *industrial policy* chapter; *small and medium-sized enterprises*; *science and research*; *education and training*; *culture policy*; programming as far as *regional policy and co-ordination of structural instruments* is concerned; horizontal legislation, air quality, waste management, water quality, industrial risk management, chemicals, genetically modified organisms, noise, and nuclear safety and radiation protection in the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; many aspects in *justice and home affairs*; *customs union*; the common commercial policy, and humanitarian aid and development policy in the *external relations acquis*; *common foreign and security policy*; external audit in terms of *financial control*; and *financial and budgetary provisions*.



Secondly, in certain areas Poland partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation on the *free movement of goods*, as well as the non-harmonised area and public procurement; the area of *free movement of services*, as regards the right of establishment and the freedom to provide non-financial services, as well as banking, insurance, investment services and securities markets; in the field of *free movement of capital*, the reinforcement of its efforts in the fight against money laundering; within the field of *company law*, the protection of intellectual and industrial property rights; and in the state aid area of *competition policy*. In the *agriculture* area it concerns trade mechanisms, the common market organisations for milk, beefmeat, and eggs and poultry, rural development, trade in live animals and animal products, common measures, animal welfare and animal nutrition; and as regards the areas of structural actions, state aid and international fisheries agreements in relation to *fisheries* policy.

This also includes the fields of: maritime *transport*; VAT and excise duties in the area of *taxation*; the independence of the national central bank in terms of *economic and monetary union*; labour law, health and safety at work, public health, the European Social Fund (ESF) and anti-discrimination in the area of *social policy and employment*; privatisation and restructuring in the *industrial policy* chapter; *telecommunications and information technologies*, including in particular the postal services sector; *audio-visual policy*; the legislative framework, institutional structures, and financial management and control in terms of *regional policy and co-ordination of structural instruments*; the industrial pollution and nature protection areas of *environment* policy; market surveillance and non-safety measures in the area of *consumer and health protection*; the Schengen Action Plan, visa policy, external borders, the fight against fraud and corruption, the fight against drugs, and money laundering in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries; and public internal financial control, control over structural action expenditure and the protection of EC financial interests in the area of *financial control*.

Thirdly, Poland must take immediate and decisive action to address nine issues of **serious concern** in three chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *free movement of persons*, relating to Poland's preparations for mutual recognition of qualifications, in particular as regards training for certain professions in the healthcare sector. It also concerns the field of *agriculture*, as regards Poland's preparations to set up its Paying Agencies, to implement the Integrated Administration and Control System and to upgrade agri-food establishments in line with public health requirements. Furthermore, it concerns, in the area of veterinary and phytosanitary control, measures relating to transmissible spongiform encephalopathies (TSEs) and animal by-products, movement controls of animals, and the control of potato ring rot and wart disease. Finally, it concerns the areas of resource management and inspection and control, and market policy in the *fisheries* chapter.

## *Slovenia*

Slovenia has exhibited a relatively robust macroeconomic performance. The restructuring process has continued to move forward on the reform path, albeit slowly and with a mixed picture in a number of sectors.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. Although decreasing slowly, the relatively high and persistent inflation remains a key policy concern. In order to support competitiveness of the economy, the Government should apply further structural reforms, such as the final liquidation of the Slovene Development Corporation, set for 2004, and further privatisation in the finance sector.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Slovenian public administration and judiciary, but there is room for further improvements. In the field of public administration, the new legislation improving the independence and professionalism of public administration should now be implemented and the provisions on restricting the involvement of civil servants in economic and political activities should be widened to cover all civil servants. A number of further reforms remain to be made to the judicial system, in particular in order to reduce the backlogs of court cases. Slovenia should continue its efforts to fight corruption. As far as translation of the *acquis* into Slovenian is concerned, the number of revised texts produced by Slovenia must increase greatly in the coming period up to accession.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Slovenia has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: almost all aspects of *free movement of goods*; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; banking, insurance, investment services and securities markets in the area of *freedom to provide services*; *free movement of capital*, including money laundering; most areas in the *company law* chapter and accounting; and state aid in the area of *competition policy*. In the area of *agriculture*, Slovenia is expected to be in a position by accession to implement the *acquis* on all horizontal issues, in most common market organisations and in rural development; in the veterinary area as regards TSE, animal disease control measures, animal welfare, zootechnics and animal nutrition; in the phytosanitary area; and in *fisheries*.

Slovenia is also expected to be in a position to implement the *acquis* by accession in: the *transport* sector; VAT, excise duties and administrative co-operation in the field of *taxation*; *economic and monetary union*; *statistics*; most areas in the field of *social policy and employment*; the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; postal services in the area of *telecommunications and information technologies*; *culture and audio-visual policy*; programming in *regional policy and co-ordination of structural instruments*; the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; almost all aspects of *justice and home affairs*; *customs*

*union*; the common commercial policy and humanitarian aid policy in the *external relations acquis*; *common foreign and security policy*; *financial and budgetary provisions*; *financial control*.

Secondly, in certain areas Slovenia partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes old approach sectoral legislation in the area of *free movement of goods*, protection of personal data, the right of establishment and the freedom to provide non-financial services, and information-society services in terms of *freedom to provide services*, protection of intellectual and industrial property rights in the *company law* chapter, and anti-trust in the area of *competition*. In the *agriculture* area it concerns the common market organisation for sugar and milk, veterinary control systems, trade in live animals and animal products, upgrading of agri-food establishments, and common measures as regards residues.

This also includes the fields of: direct *taxation*, the European Social Fund and anti-discrimination in the area of *social policy and employment*; the *telecommunications* sector; the legislative framework, institutional structures and financial management and control for *regional policy and co-ordination of structural instruments*; market surveillance and non-safety measures in the area of *consumer and health protection*; the *acquis* on data protection and the fight against fraud and corruption in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries and development policy.

Thirdly, Slovenia must take immediate and decisive action to address one issue of **serious concern** in one chapter of the *acquis* if it is to be ready by the date of accession.

This concerns the mutual recognition of professional qualifications in the area of free movement of persons, in particular alignment on the general system of recognition and on certain professions in the health care sector.

### ***Slovakia***

Slovakia's macroeconomic performance has been improving considerably, although some imbalances remain significant. Slovakia's progress on the reform path, also in the public finance area, has received strong new impetus. Various measures have been decided on and some have already become effective.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. The government has been reversing the expansionary fiscal policy stance. The restrictive fiscal policy stance supports a narrowing of Slovakia's high current account deficit. The preparation of additional public expenditure reforms, which are necessary to underpin the envisaged fiscal consolidation, has gained very strong momentum. However, most of the necessary measures still need to be further specified, appropriately sequenced and implemented. The Slovak government has been moving more decisively to tackle the deep-seated structural unemployment problem. Progress has been made as regards financial sector supervision, but the authorities need to continue to safeguard the expanding financial sector against stability risks. Further measures to improve the legal framework for a market economy have been instituted. Its

effective implementation is also being enhanced. Nevertheless, additional vigorous efforts in the area need to be pursued.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Slovak public administration and judiciary, but there is room for further improvements. In the field of public administration, the number of staff in sectors dealing with issues related to European integration should be increased, accompanied by a long-term strategy for training. With respect to the ongoing decentralisation of the public administration, it is important that the transfer of functions and fiscal decentralisation go hand in hand. As regards the judicial sector, the administrative capacities of the Judicial Council need to be strengthened and its financial independence ensured. Further efforts are necessary to reduce the duration of court proceedings in civil and commercial cases, and as regards judicial training. The fight against corruption should continue to receive high priority, in particular as regards strict enforcement of existing rules. Further legislative measures should be taken in the areas of conflict of interests, financing of political parties and lobbying.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Slovakia has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures, new approach legislation and public procurement in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; the banking sector and the investment services and securities markets in the area of *free movement of services*; *free movement of capital*, including money laundering; *company law* and accounting; and anti-trust in the *competition policy* chapter. In the area of *agriculture*, Slovakia is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas, in most common market organisations, in rural development, and in the veterinary field as regards animal disease control measures, trade in live animals and animal products, animal welfare, zootechnics and animal nutrition as well as in the phytosanitary field in general; and in *fisheries*.

Slovakia is also expected to be in a position to implement the *acquis* by accession in : trans-european transport networks, rail transport, inland waterways, air transport and maritime transport, as regards *transport policy*; direct taxation and administrative co-operation as regards *taxation*; *economic and monetary union*; *statistics*; as regards *social policy and employment*, labour law, equal treatment of women and men, health and safety, social dialogue, employment policy, social inclusion and social protection; *energy policy*; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; *culture and audio-visual policy*; programming in the area of *regional policy and co-ordination of structural instruments*; horizontal legislation, air quality, waste management, water quality, nature protection, chemicals and genetically modified organisms, noise, and nuclear safety and radiation protection in the area of *environment*; safety-related measures and consumer organisations in the field of *consumer and health protection*; many areas in the field of *justice and home affairs*; *customs union*; common commercial policy and humanitarian aid and development

policy in the *external relations* chapter; common foreign and security policy; public internal *financial control* and external audit; and *financial and budgetary provisions*.

Secondly, in certain areas Slovakia partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach legislation and the non-harmonised area in the field of *free movement of goods*; mutual recognition of professional qualifications in the *free movement of persons* chapter; in the area of *free movement of services*, insurance, information society services, protection of personal data, right of establishment and the freedom to provide non-financial services; protection of intellectual and industrial property rights in the field of *company law*. In the *agricultural* area, it concerns trade mechanisms, the common market organisations for sugar, wine, and beefmeat, in the veterinary field the veterinary control system, transmissible spongiform encephalopathies (TSEs) and animal by-products, and common measures, and in the phytosanitary field controls on maximum residue limits for pesticides.

This also includes the fields of: road *transport*; VAT and excise duties in the field of *taxation*; public health, the European Social Fund, and anti-discrimination in the area of *social policy and employment*; *telecommunications and information technologies* including postal services; legislative framework, institutional structures and financial management and control as regards *regional policy and co-ordination of structural instruments*; industrial pollution in the area of *environment*; market surveillance and non-safety-related measures in the field of *consumer and health protection*; in the field of *justice and home affairs* with respect to the Schengen Action Plan, data protection, visa policy, external borders, asylum and the fight against fraud and corruption; *external relations*, as regards bilateral agreements with third countries; control over structural action expenditure and protection of the EC financial interests in the area of *financial control*.

Thirdly, Slovakia must take immediate and decisive action to address four issues of **serious concern** in two chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the *competition policy* field as regards the fulfilment of the conditions specified in the Accession Treaty for the transitional arrangement granted in the steel sector. It also concerns the field of *agriculture*, as regards Slovakia's preparations for setting up the Paying Agency, for implementing the Integrated Administration and Control System and for upgrading the agri-food establishments in the area of public health protection.