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TOWARDS EU ACCESSION

SLOVENIA

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Executive summary

Slovenia fulfils the Copenhagen political criteria. It has made significant progress in recent years in strengthening and improving the stability of institutions that guarantee democracy, the rule of law and respect for human rights.

In its unquestionable desire to join the EU, Slovenia's main trading partner, it has entered into negotiations and by April had provisionally closed 26 of the 29 chapters of the Acquis.

Slovenia has a working market-oriented economy. Among its advantages are a well-educated and trained workforce, a low level of unemployment, relatively high productivity, large investments, export orientation and a well-developed infrastructure. The liberalisation of prices continues, as does the liberalisation of trade policies, and the market is increasingly characterised by competition. By implementing the remaining reforms intended to increase competitiveness, Slovenia will soon have the capacity to cope with competitive pressure and market forces within the EU.

Favourable macro-economic dynamics are indicated by a growth in GDP, lower unemployment, and lower budget and current account deficits. Inflation remains a cause for concern.

In general, Slovenia has progressed well in transposing and implementing the Acquis. A noticeable improvement is the significant progress made in the fields of company legislation, transport, trade in goods, services and capital, customs, payment transactions, financial supervision, energy and telecommunications. It has adopted appropriate regulations with regard to the employment of foreign nationals, the new Employment Act is undergoing its final reading in Parliament, and the procedure for changing regulations with regard to consumer protection has started.

There has also been significant progress with regard to reforms in the justice system. Improvements in administration, such as those regarding the free movement of goods, telecommunications and internal financial supervision, have also been made. It has fulfilled its obligations with regard to the transformation of duty-free shops.

Actions recommended

- Adjust monetary and fiscal policies to allow a lowering of the rate of inflation.
- Acceleration of privatisation of companies, especially those still in state ownership.
- Liberalisation of the banking and insurance systems.
- Improvement of financial and expert support for SMEs.
- Improve the overall environment for enhanced Foreign Direct Investment.
- Simplification and shortening of administrative procedures, especially customs and tax procedures.
- Ensuring the transparent and uniform implementation of regulations.
- Ensuring efficient supervision and implementation of regulations by state bodies (inspectorates).
- Speed up legal proceedings.
- Reduction and more efficient control of public expenses.

A. Introduction

1. Relations Between the European Union and the Republic of Slovenia

Ever since the declaration of independence, the first priority of Slovene foreign policy has been the integration of Slovenia in the European Union. Slovenia first signed a Co-operation Agreement with the EU, which came into effect in 1993, followed by the Europe Agreement of 10 June 1996, and the Interim Agreement on Trade of 11 November 1996, which came into effect on 1 January 1997. Thus, the trade part of the Europe Agreement, which determines the free-trade area between Slovenia and the EU, came into effect.

The Europe Agreement came into effect in its entirety on 1 February 1999. From this date onwards, all industrial products exchanged between Slovenia and the EU have been exempt from customs duties. Regarding agricultural products, the Mutual Concessions Agreement came into effect in July 2000, under which approximately 76% of agricultural imports from Slovenia to the EU and 56% of agricultural exports from the EU to Slovenia are exempt from customs duties.

On 1 November 2001, the Resolution on the Further Liberalisation of Trade in Agricultural Products came into effect, followed on 1 January 2002 by the Wine Agreement, regarding mutual concessions for the allocation of the contingent awarded to the countries of the former Yugoslavia.

The Accession Partnership for Slovenia continued to be implemented in 2000 and 2001. The proposal for the completion of this document has been put forward. In May 2001, Slovenia submitted a revised version of the NPAA to the Commission.

The EU is Slovenia's main trading partner. In 2000, 64% of all Slovenia's exports went to the EU, whilst imports from the EU represented 68% of all Slovene imports. Slovenia's most important exports are mechanical and electrical equipment (23% of exports), transportation equipment (15%) and metallurgical products (11%).

2. Political Criteria

Slovenia continues to fulfil the Copenhagen political criteria regarding the stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities. Significant progress has been made in this field in recent years.

Progress is also visible in reform of the judiciary. The implementation of the Herkules programme and amendment of the Judicial Services Act serve to reduce judicial backlog. The number of important unsolved cases has fallen by 19%, the number of unsolved execution proceedings has fallen by 22%, and the number of other proceedings has fallen by 27%. However, the backlog in land registration is increasing. The length of court proceedings has also not been shortened. Thus, 25% of civil proceedings still take more than three years to resolve.

The reform of the public administration, which is considered a short-term priority, continued in 2001. Implementation of the denationalisation process has also seen progress but needs to be concluded as soon as possible to avoid different opportunities in development and investments.

B. Economic Criteria

Slovenia has a market-oriented economy. In macroeconomic terms, the country is stable, has an appropriate budget-control mechanism, an orderly current account balance sheet, a relatively small external debt, and enjoys a high degree of economic incorporation.

Slovenia has a well-educated workforce with a relatively high level of productivity.

It has a well-developed infrastructure and a high level of investments. The level of investments in the economy is increasing constantly but modestly. Acquisitions in telecommunications and banking should increase the flow of direct foreign investment.

The principal growth factor in recent years has been the rapid increase in exports. Real growth in imports has been more gradual because of a reduction in domestic demand. The current account deficit has been reduced. The level of employment is the highest to date. There has been an increase in inflation, which was 9.1% annualised in August 2001.

The privatisation of banks and companies under state supervision has begun but is under political and emotional pressure.

A higher GDP, lower unemployment and reduced deficit are favourable to macroeconomic dynamics. Other obstacles to the flow of capital are gradually being removed within the framework of a controlled floating exchange rate policy.

GDP growth in 2000 was 4.6% and GDP per capita represented 71.6% of the EU average. The rate of economic activity also rose to 57.9% and the percentage of the active population in 2000 rose to 62 % whilst unemployment figures dropped to between 7.0% - 5.9%.

A cause of concern is inflation, which is the result of indexation and monetary and exchange policies. A more flexible labour market must be ensured and the influence of the state over certain sectors of the economy should be reduced. The implementation of structural reforms and privatisation in sectors such as banking and insurance must continue.

The government has started implementation of a thorough reform of budgetary procedures and financial management of government activities. This includes switching from annual to mid-term budget planning. The government did, however, manage to lower the budget deficit to 1.1% of GDP.

The implementation of the new Old-Age and Disability Pension Insurance Act is expected to reduce budget spending in this field by almost 0.7% GDP. Further reduction of the budget would affect the planned reform of the health sector.

The current account deficit for 2000 dropped to 3.3% GDP. Total exports rose in real terms by 12.7%.

Price liberalisation continues.

The business environment is improving. The costs of establishing a new company are relatively high, as are equity financing costs in the domestic environment. Bureaucracy and recruitment and redundancies are an obstacle to investment. In a step to partially solve this problem, the Government adopted a programme in 2000 to encourage foreign investment by facilitating procedures for acquiring building permits, registering companies, and employing foreign nationals. The programme was revised last year. An anti-bureaucratic programme

was adopted in an attempt to remove the above obstacles. Changes to the Commercial Companies Act and to labour legislation represent the legal framework for the programme.

Slovenia has a well-developed, market-oriented legal system that works well. Trade policies continue to be liberalised. Competitiveness is increasingly determining the market. By implementing the remaining reforms intended to increase competitiveness, Slovenia will soon have the capacity to cope with competitive pressure and market forces within the EU.

The financial system is in order but still operates within a relatively protected framework. The restructuring of banking is progressing with the implementation of the first procedures for the privatisation of banks. There are already signs of greater domestic competitiveness between banks but the interest rate is still far away from the EU level.

Greater restructuring and the introduction of competition in the insurance sector are needed.

C. Adoption of the Acquis

In the seven rounds of ministerial negotiations held hitherto, Slovenia has closed 21 (out of 29) chapters, as follows: Free Movement of Goods, Free Movement of Services, Company Law, Fishing, Economic and Monetary Policy, Statistics, Social Policy and Employment, Energy, Industrial Policy, Small and Medium Enterprises, Science and Research, Education and Training, Telecommunications and Information Technology, Culture and Audio-visual Policy, Environment, Consumer Protection and Health, Customs Union, Foreign Relations, Common Foreign and Security Policy, and Funding and Budget.

Free Movement of Goods

Legislative alignment has progressed considerably. Most of the framework legislation has already been adopted but a certain number of small changes are still needed. The reform of accreditation, certification and standardisation functions has been carried out. Certain by-laws still remain to be passed and the institutional structure must be strengthened, particularly with regard to bodies for harmonisation and market control.

As regards standardisation, Slovenia has now adopted close to 80% of the European Standards. The situation regarding the notification procedure and exchange of information between administrations is also satisfactory.

Free Movement of People

The legislation already incorporates most of the principles and provisions of the acquis. These will come into effect upon accession. However, restrictions on the employment of foreign nationals to managerial positions and the public administration still remain to be lifted, regulations regarding medical certificates must be changed, and additional regulations for the co-ordination of social security systems must be adopted.

The new Veterinary Act brings the role of veterinary services into line with the requirements of the acquis, and the amended Legal Professions Act guarantees harmonisation in the field of legal professions. With regard to the free movement of workers, the government has adopted appropriate by-laws intended to facilitate the employment of EU citizens before accession, and for the removal of restrictions after accession. Despite that, it is still difficult to obtain all the permits needed for employment of foreigners.

The changes to the Social Security Act, for example, provide EU citizens with the right to social assistance after accession.

More effort must be put into the mutual recognition of diplomas and qualifications, and the field of civil rights, e.g., the right to residence and voting rights.

Free Movement of Services

Slovenia has made considerable progress in this field. Most of the legislation in this field has already been passed. Regulations need to be changed in order to remove obstacles to the establishment and free movement services in such sectors as agriculture, forestry, cultural activities, film production, real estate agencies. Institutions for the supervision of the practical implementation of adopted regulations need to be established. Legislation governing investment services and the securities market is well harmonised, but regulations on investment funds and management companies as well as a number of other regulations still need to be adopted.

Legislation removing restrictions on the establishment and free flow of services (excluding financial services) in certain sectors has been passed. The Film Fund Act, for example, abolishes the requirement that foreign film producers apply for permission before filming in Slovenia.

The new Contractual Code supplements the field of contractual law and aligns it with the acquis, for example, the self-employment status of commercial agents.

In the field of financial services, changes to the Banking Act bring the law into line with the acquis and improve supervision rules. The Bank of Slovenia has a special Board of Banking Supervision put in place for this purpose. Co-operation agreements on banking supervision have been signed with certain EU bodies.

The Agency for Insurance Supervision issued an extensive set of by-laws on the basis of the Insurance Act.

Following changes to the legislation, the Ombudsman is charged with the protection of data. A special inspectorate for the protection of data has also been announced.

Free Movement of Capital

Progress is good, especially in the field of capital flows and payment transactions. Certain restrictions on monetary transactions have been lifted, for example: the limit on the amount of cash foreigners can withdraw has been lifted, the foreign currency purchase right premium has fallen to 0.2%, the time limit on the period during which foreigners selling purchased securities are required to pay additional costs has been reduced to six months, and the requirement that foreigners may only make portfolio investments through custodial accounts has been abolished.

Restrictions on foreign direct investment in the fields of telecommunications, media, auditing and transportation have been lifted.

Reforms in the field of payment transactions, transferring these from a central agency to the banks, is ongoing.

Legislation regarding money-laundering has been aligned with the acquis

Company Law

Alignment with the acquis continued with the adoption of several regulations in 2001. There has been no significant additional harmonisation.

Amendments to the Commercial Companies Act include regulations on mergers, capital increase and publication of business reports. The volume of regulations on the compulsory use of the Slovene language in companies has been reduced.

The Auditing Act, which removes restrictions on foreign investment in the establishment of auditing companies, has been passed.

The Copyright and Related Rights Act and the Industrial Property Act have been passed, aligning the field of intellectual rights protection with the *acquis*. The Law on Customs Measures in the Event of Intellectual Rights Infringement provides greater protection for intellectual property rights. The Government Office for Intellectual Property adopted a memorandum of assent with the Government Office for Harmonisation of the Internal Market, whilst the Ministry of Information Society has established a Copyright and Related Rights Institute.

Slovenia has ratified both 1996 WIPO treaties.

An efficient method of legal enforcement for intellectual property rights, training of customs and police officers in the prevention of trade in counterfeit trademarks and pirated goods, and the improvement of co-operation between detection and prosecution bodies are required in the future.

Improvements has been made with the introduction of the new SAS (Slovenian accounting standards) which are closer to IAS (International accounting standards) than the previous ones.

Competition

Slovenia is well prepared in this field. The implementation of established regulations continued in the fields of prevention of monopolies and state aid. The national body charged with the protection of competition is the Competition Protection Office.

There has been considerable progress in the field of state aid. The new Government Rules of Procedure require the supervisory body to submit an opinion whenever the government receives an application for state aid. The government continued to implement the programme aligning state aid on EU standards. It has approved the regional aid map for the allocation of state aid, which anticipates a somewhat different intensity of state aid allocation to the central and other regions in Slovenia.

The most important future task for Slovenia will be to ensure the systematic implementation of state aid rules, and the rapid alignment of existing programmes and legislation according to which state aid are approved by bodies at different levels.

Transport

The adoption of the Road Traffic Act, the Maritime Code and the Aviation Act means that Slovene legislation regulating these fields is to a large extent in line with the *acquis*. As a transit country, Slovenia continues to participate in the development of the V. and X. corridors, and is currently involved in an investment programme intended to improve the road and railway network. The Port of Koper and the Airport of Ljubljana are the main important sites in Slovenia. The companies providing services in the two locations operate in monopolistic way. A mutual participation of the Port of Trieste in some concession of the Port of Koper and vice versa should be welcomed. The competitiveness of the system of North Adriatic Ports and the railway system behind it is very important for the development of the economies in Central European countries.

Changes are required to the Road Safety Act and the Public Roads Act. Rail transport still needs to be aligned with the more recent EU regulations in this field.

Taxation

Regulations in this field have more –or less been aligned with the *acquis*. Progress has been achieved particularly with regard to excise duties. The Excise Duties Act aligns the excise rate with that of EU regulations.

Duty-free shops at border crossings with Italy and Austria have been transformed into ordinary shops.

Basic tax functions have been transferred from branch offices to tax offices, and an administrative co-operation department for the implementation of the excise system, exchange of excise information, and co-operation with EU Member States has been established. The basic infrastructure for the implementation of an integrated tax information system has been prepared, followed by the implementation of systematic solutions and the establishment of a computer centre. Administrative efficiency, procedures, co-operation and mutual assistance within the tax authority still need improvement.

Slovenia must ensure that its legislation regarding corporate taxation is aligned with the Code of Practice.

Economic and Monetary Union

Slovenia has achieved significant alignment with the *acquis*. After accession, it will participate in EMU with the status of a state exercising a derogation from Article 122 of the Treaty of Rome. It will have to make the necessary changes by then.

Statistics

There is a fair level of implementation and progress in this field. The adoption of the National Statistics Act represents progress in the field of statistical infrastructure, ensures the independence of the Statistical Office, protection of confidentiality of information, and better supervision of statistical research programmes.

Social Policy and Employment

The new Employment Act is undergoing final reading in Parliament.

Energy

Fundamental legal regulations that are already well in line with the *acquis* have been adopted.

A positive development with regard to the competitiveness of the domestic energy market is liberalisation of the domestic market with electrical energy and establishment of the National Energy Agency. Remaining price disparities must be corrected and efforts to improve energy efficiency and the use of renewable sources of energy must continue.

Of particular significance is the guarantee of safety for the Nuclear Power Station Krško, which is comparable with the safety of nuclear power stations in Western Europe.

Also the liberalisation of the gas market is expected next year. But artifices and current legal procedures are acting in a way that the decisions and agreements which are concluded in this period will strongly affect the free market for gas in the future.

Industry

Industrial policy is market-oriented, stable and predictable, in short, it is aligned with the principles of EU industrial policy. The growth of industrial production and the Government economic development strategy that promotes competitiveness and company restructuring are encouraging.

In order to complete the restructuring and privatisation processes and to increase industrial competitiveness, better conditions for foreign direct investment must be created. The internationalisation of Slovene companies and technological development must be encouraged and an effective regional development policy must be created. A crucial step in the privatisation and restructuring processes is the discontinuation of the Slovene Development Corporation

The compatibility of the aid programmes with EU rules must be investigated.

Small and Medium Enterprises

The policy on small and medium enterprises is based on the creation of a favourable business environment, development of new employment opportunities, internationalisation and new economy. In general, the policies are aligned with the principles of EU corporate policies.

The main obstacle in the development of small and medium enterprises is lack of funds. Among the new strategic instruments for the development of small and medium enterprises are interest-free loans, guarantees and subsidies on interest rates, financial assistance for female entrepreneurship, working from the home and teleworking. The Centre for the Development of Small Business is evolving into the central co-ordinator for all activities related to the development of SMEs, including the co-ordination of the anti-bureaucratic programme.

Some slight differences remain as regards the definition of SMEs compared with the EU recommendation.

Regional Policy and Co-ordination of Structural Funds

Slovenia's territorial organisation is based on twelve units, which are consistent with NUTS III. An agreement is needed between Slovenia and the Commission on temporary NUTS classification, which would enable the efficient implementation of Structural Funds after accession.

Environmental Protection

The legislation is almost entirely aligned with the acquis in the field of horizontal legislation, waste management, chemicals and noise, and considerable progress has been made in the field of the quality of and changes to the climate, nature protection, water quality, and genetically modified organisms.

Alignment is needed with the Directive on large heating appliances, the Directive on the prevention and supervision of industrial pollution, and transposition in the field of air quality. Protection against radiation also requires additional alignment.

The transposition of the acquis in the field of waste management is almost complete, with the exception of the Directive on packaging and packaging waste. Slovenia has a well-developed waste management system. There is a high level of compliance with the acquis with regard to chemicals as well, but the acquis has not yet been transposed.

Consumer Protection and Health

There has been significant progress in the alignment of legislation in this field. The procedure for aligning the Consumer Protection Act began in 2001.

The Consumer Protection Office needs to be strengthened, and co-ordination and training of other administrative and judicial organs involved in implementation and market supervision need to be improved. Strong consumer dynamics are characteristic to Slovenia. There are currently twelve non-governmental consumer organisations that provide advisory services,

information and education and training for consumers. The drafting of regulations governing the granting of charters to non-governmental consumer protection organisations and the establishment of out-of-court settlement for disputes involving financial services is expected.

Customs Union

There is significant alignment in the field of customs. Individual issues, such as those regarding free zones, customs warehousing, exemption from customs duties, after-treatment and enrichment, customs information binding the administration, and cultural objects, still need to be aligned.

Some progress has been made with regard to the administration and operational qualification, however, implementation of the *acquis* is required. Electronic commerce already represents 94% of all submitted declarations. Further development of information systems, which are a precondition for integration with EU customs computer systems in the event of accession, is still needed.

External Relations

Slovenia's commercial orientation and trade policy are increasingly aligned with that of the EU. Slovenia has made considerable progress in this field. It has entered into several trade and economic agreements on co-operation and the avoidance of double taxation, and agreements on the protection and encouragement of foreign investment. In addition to agreements made with the EU, Slovenia has entered into free-trade agreements with EFTA, CEFTA, Bosnia-Herzegovina, Croatia, FYROM, Estonia, Israel, Latvia, Lithuania and Turkey. It has also contributed significantly to the development of trade relations with the former republics of the former Yugoslavia.

Upon accession, Slovenia would be required to align its rate of customs duty with that of the EU. The average rate of duty is currently 9% for all products, compared with 6.3% in the EU.

Slovenia is actively involved in the preparations for the new round of WTO multilateral trade negotiations. In this respect, it has always supported the EU position. Upon accession, Slovenia will have to join the WTO agreement on state contracts and passenger air-traffic.

D. General Assessment

Most companies established with foreign capital in Slovenia believe that the country will be ready for membership of the EU by 2004.

The companies interviewed were small and large enterprises from the manufacturing, construction, transportation, trade and services sectors that were partly or wholly owned by foreign investors.

In their judgement, conditions have improved in recent years in such areas as mutual recognition of certificates issued in the EU, changes to labour legislation, greater opportunities for co-operation with financial institutions, exemption from customs in trade with EU countries, the introduction of a new customs and tax system, a more flexible state administration at local level, the transfer of payment transactions to banks, and greater co-operation between tax authorities and taxable entities.

In their opinion, the following issues need to be resolved in order to improve business efficiency:

- customs procedures, issue of licences and other administrative procedures are still too slow, protracted and bureaucratic,
- judicial procedures and other assertions of rights are likewise slower and more protracted than usual,
- regulations (such as those pertaining to customs duties and taxation) are lacking in clarity and thus allow different interpretations by supervisory bodies,
- a bigger and more favourable supply of capital and better conditions for investment are also lacking,
- high level of inflation,
- high prices of real estate,
- relatively high level of income tax and social contributions compared with a low income,
- better protection of consumers is expected with amendments to the Consumer Protection Act.
- in public tenders eliminate a different sort of preference for domestic bidders, avoiding discrimination against foreigners
- improve the public climate for FDI
- abolition of taxation on building areas
- abolition of a special tax on salaries

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