

ANNEX 2: CONCLUSIONS OF THE REGULAR REPORTS ON BULGARIA, ROMANIA AND TURKEY

Bulgaria

Bulgaria continues to fulfil the Copenhagen political criteria.

Progress was made with the adoption of a programme and an action plan for the implementation of the Strategy for Modernisation of the State Administration, which aim at consolidating the legal framework in this area. Sustained efforts will be necessary to further implement the public administration reform and to fulfil Bulgaria's aim to have a qualified and efficient civil service in place in the medium term, to ensure the effective application and enforcement of the acquis when Bulgaria joins the Union.

The overall reform process for the judiciary continued in line with the 2002 Action Plan. In particular, the amendments to the Constitution regarding the status of magistrates, represent an important step forward. Other legislative measures aim at reducing the duration of court proceedings and strengthening judicial control of decisions of the executive. However, further efforts are necessary to re-organise the investigation service as part of the executive in line with best practice in Member States. Bulgaria also needs to ensure that the judicial budget is adequate for the smooth functioning of the judicial system.

Corruption remains a problem, and Bulgaria should maintain concerted efforts to implement measures in this respect. The fight against corruption remained high on the political agenda and further measures in this context were adopted.

Bulgaria continues to respect human rights and fundamental freedoms.

The legal framework for asylum and child protection improved considerably. However, the living conditions of children placed in institutions changed little during the past year. As regards the mentally disabled, the required legal framework is still missing, notably to ban arbitrary detention. Despite some efforts to address the situation, the living conditions in institutions for mentally disabled are difficult and opportunities for rehabilitation and therapy are scarce. Further efforts are necessary to address the situation as regards degrading treatment by the police and trafficking in human beings. In the area of social and economic rights, progress can be reported notably as regards equal opportunities and anti-discrimination.

The new Action Plan for the implementation of the "Framework Programme for Equal Integration of Roma into Bulgarian Society" represents a positive step, as specific budgetary support is provided for measures in the areas of anti-discrimination, education, culture, housing, employment and social protection. Determined and sustained efforts are needed to fight discriminatory attitudes and behaviour and to address the widespread social disadvantage affecting the Roma community.

Bulgaria is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it continues implementing its reform programme to remove remaining difficulties.

The Bulgarian economy has achieved a high degree of macroeconomic stability due to a good policy-mix brought about by the currency board arrangement, a tight fiscal stance and wage moderation. Economic stability and good progress in structural reforms allow market mechanisms to provide a more efficient allocation of resources which, in the absence of the nominal exchange rate as an instrument for adjustment, is setting the basis for a process of sustained growth. This holds in particular for the increasing role of the private sector through privatisation and the reduction of state aid, the positive development of the banking sector and some improvements in the regulatory environment.

However, the flexibility of product and labour markets needs to be further enhanced. In particular, the efficiency of the administrative and judicial system has to be improved, providing economic agents a more stable and predictable framework and better allow to enforce their property rights. The privatisation programme needs to be completed. Regulations and administrative procedures affecting enterprises must be further streamlined, also to provide more viable conditions for small and medium-sized enterprises. The restructuring and liberalisation of the network industries needs to further advance in order to reduce subsidies, to enhance quality and allow for a reduction of the prices of their services. The ongoing reduction in unemployment should be further supported by addressing rigidities in the labour market and improving the education system. Implementing these reform measures should contribute to higher levels of private and public investment, thereby contributing to sustained growth and competitiveness within the Union.

Over the past year, Bulgaria has continued to make good progress in most areas of the *acquis* and is on track to complete the required legislative transposition before the planned date of accession if the current pace of progress is maintained.

Regarding the internal market, Bulgaria made further progress in most areas. In *free movement of goods*, progress continued with the adoption of sector specific legislation in the area covered by new approach directives. In the sectors covered by old approach directives, progress was recorded notably as regards data protection for pharmaceuticals. While progress is recorded in the area of food safety, further efforts are needed both on transposition and administrative capacity. In the non-harmonised area, Bulgaria should continue the screening for measures that may be incompatible with the principle of free movement of goods. As to public procurement, further efforts are necessary to align with the *acquis* and to build up the necessary administrative capacity.

As regards *free movement of persons*, progress was limited and considerable further work is needed concerning mutual recognition of qualifications (especially as regards curricula and training requirements) and the establishment of the necessary administrative bodies for the future co-ordination of social security systems. Concerning the right of establishment and *freedom to provide services*, Bulgaria made further progress as regards the non-discriminatory regime of national treatment for foreigners performing economic activities in Bulgaria. The establishment of the Financial Supervision Commission is an important step towards strengthening supervision. Further efforts are required as regards data protection and information-society services. In the area of *free movement of capital*, Bulgaria has made good progress in adopting new legislation on capital movements and payments, and anti-money laundering.

Company law was further aligned with the *acquis*. The focus should now be put on the enforcement of legislation on the protection of intellectual and industrial property rights, notably through better co-ordination between competent authorities. Further progress was recorded in the field of *competition policy*, where the legal framework for both antitrust and state aid was consolidated. Further efforts are required to enhance the state aid enforcement record. Bulgaria also needs to restructure its steel sector in line with the relevant provisions of the Europe Agreement.

Regarding *agriculture*, Bulgaria has made considerable progress in adopting legislation in particular in the veterinary and phytosanitary sector. Administrative structures have been further consolidated and strengthened although further improvements are needed. Substantial work is still ahead in order for Bulgaria to meet EU veterinary and phytosanitary control and hygiene standards. Bulgaria has achieved a reasonable degree of legislative alignment in field of *fisheries*. However, further progress is needed with regard to technical capacity of inspection and control systems as well as with regard to compliance with EU hygiene and health requirements.

Bulgaria has continued to make progress in aligning *transport* legislation with the *acquis* and has made efforts to improve its maritime safety record. These efforts should continue. The administrative structures in the road, railway and maritime areas need to be strengthened. Attention needs to be paid to ensuring the financing for important investments necessary in this sector, notably for upgrading the road network.

As regards *taxation*, positive developments could be reported in the areas of VAT and excise duties, where new legislation was adopted. However, significant further efforts are needed to strengthen the tax administration. Attention should be paid to improve tax collection, enhance internal control, ensure that the computerised tax information system is fully operational, and that interconnectivity with EU IT systems is prepared.

On *social policy and employment*, some progress has been made, particularly in the area of anti-discrimination. However, further work remains on legal transposition, particularly in the areas of labour law, health and safety at work and public health. The administrative capacity needs to be strengthened.

Reforms in the *energy* sector progressed, although important legislation preparing for the internal market and setting up a framework for energy efficiency have not yet been adopted. The preparation for privatisation of the distribution companies has advanced. Bulgaria must continue to respect its commitments on nuclear safety, notably as regards closure commitments for Kozloduy nuclear power plant and to ensure a high level of nuclear safety in its installations.

Bulgaria has significantly progressed in aligning with the *telecommunications acquis* through the adoption of a new telecommunications law. Efforts should now focus on implementation and further enhancing the capacity of the regulator.

Concerning *regional policy and co-ordination of structural instruments*, Bulgaria has made some progress with regard to preparations for the implementation of Structural and Cohesion Funds, notably with institutional structures and programming. Considerable efforts are still needed to develop, consolidate or complete institutional structures and to bring administrative capacity (including staffing and training) and procedures up to the

level required. Priority should also be given to the introduction of efficient and fully transparent procurement and financial management and control systems as well as to monitoring and evaluation system and to the strengthening of inter-ministerial co-ordination.

Bulgaria has reached a good level of alignment of the *environmental acquis* and has developed directive-specific implementation plans and financing strategies. The continuous efforts to develop administrative capacities, notably at local level, and further elaborate mechanisms to monitor effective implementation should be maintained. Implementation remains a major challenge, as is the need for increased administrative capacity and the cost of alignment.

Some progress has been made in further aligning Bulgaria's legislation with the *acquis* in the area of *consumer and health protection*. Bulgaria needs to finalise its legislative framework, particularly in the area of non-safety related measures. Further efforts are needed to put in place an efficient market surveillance mechanism.

Further good progress could be noted in the area of *justice and home affairs*. The new legislation adopted in the areas of data protection, visa, migration, asylum and money laundering almost completed alignment with the *acquis*. Substantial further efforts are needed to further strengthen the judicial system, through a continuation of the reforms. Particular attention should be given to combating drugs and illegal migration.

For *customs*, a good degree of legal alignment has been reached and progress was noted concerning the administrative and operational capacity and concerning computerisation. These efforts should continue. Measures were taken in the framework of the anti-corruption strategy.

Significant further progress has been made in strengthening *financial control* in Bulgaria, developing further the entire legal basis and the necessary administrative capacity. Further work should now focus on implementation of legislation and further strengthening of the required institutional structures, including for the protection of the EU financial interests.

Steady progress is being made in the other chapters of the *acquis*.

Bulgaria needs to continue to make sustained efforts to develop sufficient administrative and judicial capacity to implement and enforce the *acquis*. As well as continuing horizontal reform of the public administration, it needs to focus in particular on developing the capacity to be part of the internal market and to apply the *acquis* in areas such as agriculture, environment and regional policy. Continued efforts are required to establish the necessary administrative capacity to ensure the sound and efficient management of EU funds.

In the accession negotiations, 26 chapters have been provisionally closed. The commitments made in the negotiations are with a view to accession in 2007. They are generally being met, although delays have been noted in certain specific areas.

Romania

Romania continues to fulfil the political criteria.

The political will to address administrative and judicial reform exists and a number of positive initiatives have been launched over the last year to reform the public administration and the judiciary. For example, the Civil Servant Statute was revised and a major reorganisation of the court system was launched. However, the reform process is at an early stage. The Romanian civil service remains characterised by cumbersome procedures, limited transparency and a limited capacity for policy execution. The judicial system needs to improve the management of cases and the consistency of judgements as well as to increase the independence of the judiciary. These key issues must be urgently addressed.

Romania still needs to develop a strategy to address reform of the policy and legislative process. Progress was made with the restriction of the use of emergency ordinances. Laws on the freedom of information and transparency in the legislative process are also positive developments but have only been partially implemented. Constitutional reform of the parliamentary system should be accompanied by measures to increase parliamentary capacity to effectively scrutinise draft legislation.

Corruption in Romania continues to be widespread and affects all aspects of society. A number of high-profile measures were launched over the reporting period - but the implementation of anti-corruption policy as a whole has been limited. The measures taken have yet to have an impact and substantially increased efforts are needed.

Romania continues to respect human rights and fundamental freedoms, and has made good progress in a number of important areas.

Structures have been established to implement anti-discrimination legislation and a number of cases of discrimination were sanctioned. The capacity of the Ombudsman's office was strengthened. The good progress noted in last year's report in reforming the system of child protection has continued and further initiatives have been taken to enhance the rights of national minorities. The implementation of the Roma Strategy has continued although a lack of resources has meant that the results have been somewhat limited. Similarly, the process of property restitution has continued, but remains far from complete.

Reforms have been launched in a number of other areas: modernisation of the police, improving care for the disabled, reducing social exclusion, improving the social dialogue. To date, the main work in these fields has consisted of developing strategies and preparing framework legislation. The challenge for the future will be the effective implementation of these initiatives. While the proposals to reform the Penal Code are positive developments, further efforts are needed to strengthen the freedom of expression. Additional measures are also needed to further reduce prison overcrowding.

Romania can be considered as a functioning market economy once the good progress made has continued decisively. In addition, a vigorous and sustained implementation of its structural reform programme is required in order for Romania to be able to cope with competitive pressure and market forces within the Union in the near term.

Further progress towards macroeconomic stability was made as inflation continued to decline from a relatively high level despite further adaptations of regulated prices. The external position remained sustainable and fiscal policy prudent. Measures to improve tax administration are being progressively put into place. The commitments to control the total wage bill in the public sector were broadly respected and some actions were taken to enforce enterprises' financial discipline, most notably a somewhat higher disposition to disconnect energy users in arrears. Privatisation and restructuring of public enterprises accelerated. Public ownership also decreased in a banking sector that continued to develop its intermediation role. Administrative improvements of market entry and exit mechanisms were undertaken along with various initiatives to improve the business environment.

The authorities should now consolidate the progress achieved in these areas while addressing more decisively those issues where advances were insufficient. In order to preserve the momentum towards greater macroeconomic stability, the recent tightening in monetary policy should be accompanied by prudent fiscal and wage policies as well as by a continued reduction in the quasi-fiscal deficit. Medium-term fiscal prospects also need to be strengthened by advancing expenditure reform and improving tax compliance. This would help strengthening enterprise financial discipline which remains a key, unresolved issue. Measures should focus on the root causes of the continued accumulation of arrears to the budget and the energy sector. Efforts to improve the workings of the market mechanism must be completed by a greater willingness to liquidate loss-making enterprises and establish natural gas prices that appropriately reflect short and long-term costs. Having moved beyond the initial phases, restructuring and privatisation in key sectors, such as energy, mining and transport, must be brought forward. This would greatly support the establishment of a functioning market economy and the development of Romania's capacity to cope with competitive pressure and market forces within the Union.

Romania has made steady progress with the adoption of the *acquis* and is on track to transpose the required legislation before the planned date of accession provided the current pace of progress is maintained. Weaknesses in the legislative process mean that the quality of legislation transposed is uneven and in some cases revisions will be needed before laws can be implemented.

In the area of the internal market, Romania has continued to make progress with the transposition of sector specific legislation on the *free movement of goods* and public procurement. Particular attention must be paid to developing the ability to administer the public procurement, the foodstuffs and food safety *acquis*. Romania should also continue the screening for measures that may be incompatible with the principle of free movement of goods. Progress on the *free movement of persons* has been limited and additional efforts should now be focused on preparations for implementing the *acquis* on mutual recognition of professional qualifications. Work to identify barriers to the *free movement of services* has continued - although only a few restrictions have been removed. While alignment with the *acquis* on *free movement of capital* is steadily improving greater efforts are needed to improve payments systems and the fight against money laundering.

Romania has made progress in the field of *company law* as such. Implementation of new accountancy and auditing rules should be prioritised. Greater efforts to protect industrial

and intellectual property rights are needed. While the Romanian *competition* legislation is broadly in line with EC anti-trust rules, in the area of state aid there is not yet sufficient control. In the steel sector, Romania's obligations for transparency with regard to direct and indirect state aid should continue to be respected.

Further progress has been made in transposing the *agricultural acquis* and in the restructuring of the agricultural sector. Enforcement of legislation is hampered by limited management and administrative capacity. Particular attention should therefore be paid to reinforcing the administrative capacity to implement and enforce the *acquis*, in particular in the veterinary and phytosanitary fields. Only limited progress has taken place in the *fisheries* sector and delays have occurred with regards to the transposition of the *acquis*, in particular on the Fishing Vessel Register. The administrative capacity needs to be considerably reinforced.

Romania has continued to make good progress with the transposition of the *transport acquis* and with the establishment of the required administrative structures but maritime safety remains a concern. Priority should be given to developing institutions to enforce the new legislation and securing the funding needed to make the heavy investments required.

Romania has made some progress in aligning with the *acquis* on *taxation* and particular attention should now be paid to the modernisation of the tax administration and improvement of IT systems. The adoption of the Labour Code was a major step forward in the transposition of the *acquis* on *social policy and employment*. The main focus of future efforts should be ensuring the implementation of the various initiatives that have been taken and to strengthen the administrative capacity. Legislative progress in the *energy* sector needs to be matched by establishing effective implementation structures, carrying through with structural reforms and improving the functioning of the internal energy market.

The building blocks for a modern *industrial policy* are now in place, but the key challenge is its implementation as structural weaknesses limit the capacity for enforcement. Considerable efforts have been made to improve the business environment although the situation facing *Small and medium-sized enterprises*, remains difficult. Romania has made significant progress in the area of *telecommunications* with the establishment of a regulatory body, the liberalisation of the telecommunications market and the transposition of the new telecommunication *acquis*.

The institutional framework for *regional policy and co-ordination of structural instruments* is still not clearly defined and specific arrangements for financial management and control have still to be made. Considerable further efforts are needed to bring the administrative capacity up to the level required. In the area of the *environment*, although Romania has transposed a considerable amount of legislation, administrative capacity and financial resources dedicated to the sector remain inadequate.

Legislative alignment on *consumer and health protection* has continued and Romania has made some progress as regards market surveillance activities and the co-ordination of control activities between competent ministries and authorities.

Legislative progress has been made in most areas of *justice and home affairs* and especially so in migration, organised crime, money laundering, and judicial co-operation in civil matters. However, implementation capacity remains weak in almost all areas and Romania should increase its efforts to develop administrative capacity and inter-agency co-operation.

Progress has also been made in the area of *customs* although additional efforts should address corruption within the Customs Administration and prepare in advance for the application of measures that will be introduced at the time of accession. Considerable progress has been made in the *financial control* area. Further efforts should concentrate on implementing sound financial control systems, completing legislative alignment, and strengthening the administrative capacities.

Steady progress is being made in the other chapters of the *acquis*.

In a number of important sectors, there has been a continued gap between progress in legal transposition and the limited overall *capacity of the public administration* to implement and enforce the newly adopted legislation. This represents a major constraint on Romania's accession preparations and to address this issue will require a comprehensive, structural reform of both the public administration and the judicial system. These concerns extend beyond adoption of the *acquis* and also apply to the management of EU financial assistance. Progress in establishing the new institutional structures required by the *acquis* has continued although results to date have been uneven.

In the accession negotiations, 20 chapters have been provisionally closed. The commitments made in the negotiations are with a view to accession in 2007. They are generally being met, although delays have been noted in certain specific areas.

Turkey

Over the past year the Turkish government has shown great determination in accelerating the pace of reforms, which have brought far-reaching changes to the political and legal system. It has also taken important steps to ensure their effective implementation, in order to allow Turkish citizens to enjoy fundamental freedoms and human rights in line with European standards. Four major packages of political reform have been adopted, introducing changes to different areas of legislation. Some of the reforms carry great political significance as they impinge upon sensitive issues in the Turkish context, such as freedom of expression, freedom of demonstration, cultural rights and civilian control of the military. Many priorities under the political criteria in the revised Accession Partnership have been addressed.

Progress is being made in streamlining the functioning of public administration and government. The government has, in particular, started reforms with a view to promoting a more transparent management of human resources in the public service. This also serves to strengthen the fight against corruption.

The duties, powers and functioning of the National Security Council (NSC) have been substantially amended, bringing the framework of civil-military relations closer to practice in EU member states. The role of the Secretary General of the NSC has been reviewed and its executive powers have been abolished. There are still representatives of the NSC in civilian boards such as the High Audio Visual Board (RTÜK) and the High Education Board (YÖK). Full parliamentary control over military expenditures must be ensured both in terms of approving the budget and in terms of auditing.

More efforts are still needed to enhance the efficiency and the independence of the judiciary. Already, the judicial system has been strengthened with the establishment of a new system of family courts. The competence of military courts to try civilians has been abolished. Positive changes have been made to the system of State Security Courts, in particular the abolition of incommunicado detention. However, the functioning of these courts still needs to be brought fully in line with the European standards in particular with the defence rights and the principle of fair trial.

On the ground, implementation of the reforms is uneven. In some cases, executive and judicial bodies entrusted with the implementation of the political reforms relating to fundamental freedoms adopted by Parliament have narrowed the scope of these reforms by establishing restrictive conditions, hindering the objectives initially pursued. The government has recognised that the reforms are not being put into practice systematically and has set up a Reform Monitoring Group in order to ensure their implementation.

Turkey has ratified the Civil Law Convention on Corruption, so that on 1 January 2004 it will become a member of the Council of Europe's Group of States against corruption (GRECO). However, in spite of several initiatives, corruption remains at a persistently high level and affects many spheres of public life.

Turkey has ratified major international as well as European Conventions such as the International Covenant on Civil and Political Rights, on Social and Economic Rights as well as Protocol 6 of the European Convention on Human Rights.

It is, however, of great concern that Turkey has not executed many judgements of the ECtHR, by means of ensuring payment of just satisfaction or reversing decisions made in contravention of the ECtHR. One example is the *Loizidou* case, as it is now five years since the ECtHR ruled on this matter.

The fight against torture and ill-treatment has been strengthened and the Turkish legal system has come closer to European standards in this respect. The scale of torture has declined but there are still reports about specific cases, which continues to cause concern.

The reform of the prison system has continued and rights of detainees have been improved. In practice, the right to access a lawyer is not always ensured.

The possibility of retrial has been introduced but in practice few cases have been subject to retrial. In the case of *Zana* and others, retrial has so far largely resulted in a repetition of the previous trial, leading to persistent concerns about the respect for the rights of defence.

The adoption of the reform packages has led to the lifting of several legal restrictions on the exercise of freedom of expression. The enforcement of the revised provisions of the Penal Code has led to many acquittals although cases against persons expressing non-violent opinion continue to occur. A number of persons imprisoned for non-violent expression of opinion, under provisions that have now been abolished, have been released.

Notable progress has been achieved in the area of freedom of demonstration and peaceful assembly where several restrictions have been lifted. Nevertheless, in some cases of peaceful demonstration, the authorities have made a disproportionate use of force.

As regards freedom of association, some restrictions have been eased, but associations still experience cumbersome procedures. Cases of prosecution against associations and particularly human rights defenders continue to occur.

The law on political parties has been amended to make closure of parties more difficult. However, HADEP has been banned by the Constitutional Court and DEHAP is facing proceedings in view of its closure.

Concerning freedom of religion, the changes introduced by the reform packages have not yet produced the desired effects. Executive bodies continue to adopt a very restrictive interpretation of the relevant provisions, so that religious freedom is subject to serious limitations as compared with European standards. This is particularly the case for the absence of legal personality, education and training of ecclesiastic personnel as well as full enjoyment of property rights of religious communities.

Measures have been taken to lift the ban on radio and TV broadcasting and education in languages other than Turkish. So far, the reforms adopted in these areas have produced little practical effect.

The lifting of the state of emergency in the Southeast has in general eased tensions amongst the population. There has been greater tolerance for cultural events. The programme for the return to villages proceeds at a very slow pace. Serious efforts are needed to address the problems of the internally displaced persons and the socio-economic development of the region in a comprehensive fashion and of cultural rights in general.

In the conclusions of the Thessaloniki European Council, and the Accession Partnership, Turkey is encouraged to strongly support the efforts of the UN Secretary General towards a settlement of the Cyprus problem. Turkey has expressed its support on different occasions for a settlement to the Cyprus problem. Turkey has indicated that an agreement aiming to establish a customs union with the northern part of Cyprus will not come into effect.

Relations between Turkey and Greece have continued to improve. Efforts are continuing to put in effect new confidence building measures. Exploratory contacts on the Aegean between the two foreign ministries have also continued.

Turkey decided to give its agreement as a NATO member to the modalities of participation of non-EU European allies in EU-led operations using NATO assets. This

has solved a problem which had hitherto hindered the effective launch of the European Security and Defence Policy.

Overall, in the past 12 months Turkey has made further impressive legislative efforts which constitute significant progress towards achieving compliance with the Copenhagen political criteria. Turkey should address the outstanding issues highlighted in this report, with particular attention to the strengthening of the independence and the functioning of the judiciary, the overall framework for the exercise of fundamental freedoms (association, expression and religion), the further alignment of civil-military relations with European practice, the situation in the Southeast and cultural rights. Turkey should ensure full and effective implementation of reforms to ensure that Turkish citizens can enjoy human rights and fundamental freedoms in line with European standards.

Furthermore, Turkey should provide determined support for efforts to achieve a comprehensive settlement of the Cyprus problem.

Turkey has significantly improved the functioning of its market economy, while macroeconomic imbalances remain. Further decisive steps towards macroeconomic stability and structural reforms will also enhance the Turkish capacity to cope with competitive pressure and market forces within the Union.

Economic stability and predictability have increased with a continued decline in inflationary pressures, although still high, and the modernisation of Turkey's market regulations and institutions. The positive effects of adopted and gradually implemented structural reforms have helped to withstand the effects of the Iraq crisis without a major economic setback. The independent regulatory and supervisory agencies played a crucial role in this respect. Financial sector surveillance has been strengthened and the base for a modern foreign direct investment legislation has been laid. Transparency and efficiency of public finance management has been improved.

The current reform process should be maintained. Fiscal discipline and a stability-oriented economic policy are cornerstones for strengthening market confidence and sustainable public finances. In order to achieve a well-balanced and sound economy, the disinflation process has to be maintained. The restructuring in the banking sector is not yet sufficiently advanced and the process of aligning the sector's surveillance and prudential standards with international norms should be completed. The privatisation of state-owned banks and enterprises as well as market deregulation has to be accelerated, and structural distortions should be addressed. Sufficient public and private investment into productive uses and devoting particular attention to education are important to increase the competitiveness and the growth potential of the economy. The inflow of foreign direct investment has to be encouraged by removing remaining barriers.

Turkey's alignment has progressed in most areas but remains in an early stage for many chapters. It is most advanced in chapters related to the EC-Turkey Customs Union but in this respect it is not fully meeting its obligations. Alignment is also more advanced in areas where other international obligations exist which are similar to the *acquis*. Further legislative work is required in all areas, and Turkey should focus on implementing its National Programme for the Adoption of the *Acquis*, in line with the Accession Partnership priorities, more consistently across all chapters. Also, new legislation should not move away from the *acquis*.

On the *free movement of goods* Turkey has made progress, particularly on sector-specific legislation, but substantial efforts are needed in terms of both alignment and implementation of the new and old approach legislation on product safety and product specifications, both as regards industrial and processed food products, including food safety. There has been only limited progress in establishing conformity assessment and market surveillance mechanisms and institutions, and the system of legal metrology needs to be reinforced. Through amendments to the public procurement law, Turkey has reduced the level of compliance with the *acquis*. In the short term, Turkey should seek to adopt instruments to remove technical barriers to trade. Much work remains to be done to ensure correct implementation of the *acquis* and compliance with the obligations ensuing from the Customs Union Decision applicable on 31 December 2000.

On *free movement of persons*, there has been some progress in the reporting period, mainly in the area of free movement of workers, but Turkey's alignment remains limited. With regard to the *free movement of services*, Turkey has made some progress in relation to the banking sector, and to investment services and securities markets. In the field of professional services, limited progress has been made. In the insurance sector, a substantial effort is needed to harmonise legislation with the *acquis* and to strengthen administrative capacity. Efforts to adopt legislation concerning data protection should be continued and further legislation concerning information-society services should be adopted in accordance with the *acquis*. On *free movement of capital* the alignment with the *acquis* is progressing, notably as regards the liberalisation of capital movements, but further efforts are necessary.

Despite the measures taken in previous years, alignment in the field of *company law* including intellectual and industrial property rights, remains limited. Both legislative and enforcement measures are needed to tackle piracy and infringements of intellectual and industrial property rights. On *competition*, efforts are needed to strengthen the provisions for state aid monitoring and to establish a state aid monitoring authority.

As regards *agriculture*, some progress has been made in the veterinary and phytosanitary fields particularly as regards animal disease control, identification and registration of bovine animals and harmful organisms related to potatoes. Further substantial efforts aimed at increasing the administrative capacity and upgrading control and inspection systems, and the upgrading of food processing establishments, will be required if full compliance is to be achieved in these sectors. A strategy for rural development should be put in place. In the area of *fisheries*, limited progress has been made but some preparatory work, especially in the area of inspection and control, has been completed. However, the alignment of key legislation with the *acquis* and the institutional reform still lie ahead.

On *transport*, progress remains very limited. In certain sectors, particularly road transport and maritime safety, the level of alignment achieved relates to the transposition of various international conventions. Substantial efforts are needed in the area of maritime safety and on road and rail transport. Limited progress has been achieved on *taxation*, both in terms of legislation and administrative capacity. As regards legislation, further alignment is required on VAT, where due attention should be paid to the scope of exemptions and application of reduced rates. As for excises, although some approximation of alcohol and tobacco duties has been achieved, the applied duties are still lower than the EU minimums. Turkey also needs to implement the duty-suspension movement regime.

Turkey has made some progress in all *statistical* areas, but more efforts are needed in order to meet the main requirements as regards alignment. The existing legislation needs to be brought into line with the *acquis* in order to implement the fundamental principles of impartiality and reliability of data, transparency of statistics and confidentiality of personal data. On *social policy and employment*, Turkey has made some progress. Administrative capacity has been strengthened and measures have been adopted to promote gender equality in the field of labour law and on employment policy. Further efforts are required in the field of social dialogue and health and safety. As regards *energy*, significant progress has been achieved via the adoption of various provisions implementing the framework laws on electricity and gas markets. Alignment in the areas of energy efficiency and renewables has also progressed. In all energy fields, further efforts are needed to ensure completion of alignment.

On *industrial policy*, Turkey has made progress in the field of public sector reform, as well as with the adoption of a new foreign direct investment law. Further efforts are required to restructure state-owned enterprises. Steel industry restructuring remains a high priority. Turkey has made some progress as regards *small and medium-sized enterprise* policy. The introduction of simplified procedures to register and establish a company is a positive development. Turkey is well endowed with technology development centres. Turkey's full association with the Sixth Framework Programme demonstrates positive engagement on *science and research*, although Turkey's participation to EU programmes has only recently begun. Turkey should increase levels of investment in science and research. Some progress has been achieved in the area of *education and training*. Turkey should increase efforts to complete its preparation for participation in the three Community programmes, and ensure that measures are being implemented.

Despite some progress, the legislative alignment with the *telecommunications acquis* is still insufficient and further efforts are necessary, particularly with regard to universal service, numbering, leased lines and data protection. Implementation and enforcement of the existing legislation should be improved. Considerable efforts are needed to liberalise the market for postal services. Turkey has made legislative progress on *culture and audio-visual policy*, in particular, through authorising broadcasts in languages other than Turkish. However, further substantial efforts are required to align with the *acquis* and Turkey is encouraged to adopt implementing measures on broadcasting in other languages.

In the field of *regional policy*, some progress has been achieved since the last regular report but considerable efforts are still necessary to ensure implementation of regional policy at central and regional level. Appropriate institutions need to be created and endowed with adequate human and financial resources. In the *environmental* area, Turkey has made limited progress in a number of areas, and overall the level of alignment with the *acquis* remains low in most areas. Greater efforts are needed as regards both legislation and implementation on all aspects of environment policy.

Alignment on *consumer and health protection* has progressed, notably with the adoption of a framework law. However, an effective safety surveillance regime should be established and adequate resources are needed to ensure a high level of consumer protection. In adopting initial strategies for alignment in the area of *justice and home affairs*, Turkey has made important progress. Co-operation has improved in many fields,

such as the fight against illegal migration and organised crime. Turkey should start implementing the strategies already adopted and intensify its efforts to align its legal and institutional framework. Turkey should start to negotiate a readmission agreement with the EU.

In the *customs union* chapter, the following outstanding issues should be given priority: legislation on the customs aspects of control; counterfeit and pirated goods; cultural goods and non-customs legislation relevant to the application of customs provisions on free zones and customs procedures with economic impact. Administrative capacity has been improved, but Turkey should continue to strengthen inter-institutional co-operation, post clearance audits and border control, in order to achieve satisfactory implementation and enforcement of the aligned legislation.

Turkey has made very limited progress on *external relations*, where long outstanding obligations, particularly in the area of the Generalised System of Preferences, remain to be fulfilled. In the context of bilateral agreements, Turkey should continue its efforts to conclude free trade agreements with partners with whom the EU has such arrangements. In the field of the *common foreign and security policy*, Turkey's policy has largely continued to position itself along the lines of that of the EU. Turkey should ensure that its national policies and practice conform to the EU's common positions, and should ensure that all sanctions and restrictive measures can be duly implemented.

Due to the delay in passing the Public Financial Management and Financial Control Law, little progress has been made on *financial control*. Turkey should adopt this law and focus on improving budget transparency and accounting standards and implementing the new budget code structure.

In many fields implementation is weak. Administrative capacity in different areas needs to be strengthened to ensure that the *acquis* is implemented and enforced effectively. In some cases, administrative reform should entail the establishment of new structures, for example in the field of state aid and regional development. Where new regulatory bodies have been set up, their autonomy should be assured and they should be provided with sufficient staff and financial resources.