



Strasbourg, 21 October 2005

T-10-2005

Restricted
CDL-UDT(2005)035
Engl. only

EUROPEAN COMMISSION FOR DEMOCRACY THROUGH LAW
(VENICE COMMISSION)

UNIDEM Campus Trieste Seminar

**“THE IMPACT
OF THE ENLARGED EUROPEAN UNION
ON NEW MEMBER STATES AND PROSPECTS
FOR FURTHER ENLARGEMENT”**

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Trieste, Italy

24 to 28 October 2005

REPORT

**“EU STABILISATION AND (PRE)ACCESSION PROCESS:
COMMITMENTS UNDERTAKEN BY NON-MEMBER STATES,
MONITORING OF THEIR PERFORMANCE AND EU SUPPORT
FOR BRINGING ABOUT SUCCESSFUL REFORMS
WITH FOCUS ON ALBANIA AND BOSNIA AND HERZEGOVINA”**

by

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- Some words on the ENP – Then Western Balkans

The European Neighbourhood Policy (ENP) and the Enlargement Process

I PART: GENERAL PICTURE OF THE ENP: THE ORIGIN, THE AIM AND THE METHODOLOGY (VERY SHORT)

II PART: A MORE DETAILED OVERVIEW ABOUT THE STABILISATION AND ASSOCIATION PROCESS, WITH PARTICULAR EMPHASIS ON BIH AND ALBANIA (EXTENSIVE)

The ENP and the Enlargement Policy have in fact to be considerate as two different frameworks of the EU external relations.

I PART

The ENP is a recent policy. It was launched in 2003 by

- a Communication of March from the Commission to the Council and the European Parliament announcing “a New Framework for Relations with the Eastern and Southern Neighbours” (hereafter “*the Wider Europe Communication*”)
- and by a Communication of July 2003 “Paving the way for a New Neighbourhood Instrument”, *focused on a coordination between the various financing instruments concerned within the existing legislative and financial framework and therefore based on a new legal instrument addressing the common challenges identified in the Wider Europe Communication.*

The introduction of this new policy has been motivated by the the EU’s 5th Enlargement (2004 / 2007) that is changing the political geography of Europe:

EU 25 now has 450 Mio citizens

EU gains new borders, new opportunities – new challenges

Need for greater engagement with neighbours East & South

At the beginning conceived for three northern neighbours - Belarus, Moldova and especially Ukraine, the ENP was therefore extended to the Mediterranean countries = to avoid disequilibria between the Eastern and Southern dimension of the Neighbourhoods of Europe ⇒ The title ‘Wider Europe’ was discarded in favour of European Neighbourhood Policy.

Then, the countries involved are: **BELARUS, UKRAINE, MOLDOVA, ARMENIA, AZERBAIJAN, GEORGIA** (*Eastern dimension*)+ **MOROCCO, ALGERIA, TUNISIA, LIBYA, EGYPT, ISRAEL, PALESTINIAN AUTHORITY, JORDAN, LEBANON, SYRIA** (*Mediterranean dimension*).

➤ **Aim:**

1. To avoid new dividing lines in Europe = *to avoid the risk of prosperity gap between the inside and the outside* = “existing differences in living standards across the Union’s borders with its neighbours may be accentuated as a result of faster growth in the new Member States than in their external neighbours;
2. To promote stability and prosperity within and beyond the new borders of the Union = to develop a friendly neighbourhood with which the EU enjoys close, peaceful and cooperative relations = common challenges in fields such as the environment, public health, and the prevention of and fight against organised crime will have to be addressed; efficient and secure border management will be essential both to protect our shared borders and to facilitate legitimate trade and passage.
3. To build a long term approach promoting reform, sustainable development and trade.

➤ **ENP content**

- ENP is based on common values and common interests = *Democracy, Human Rights, rule of law; market economy; sustainable development; stability, security, prosperity; common response to challenges (borders, prosperity gaps, crime, environment, health, terrorism)*
- ENP means significant economic integration and a deepened political co-operation = In fact, the ENP main objectives are
 1. The integration of the neighbourhood countries in the EU internal market
 2. The integration into transport, energy, telecom networks and the European research area
 3. The enhancement of the cooperation on Justice & Home Affairs, and cross-border cooperation (*visa requirements ,readmission agreements, cooperation police authorities*)
 4. The intensification of the political dialogue and cultural relations (*conflict prevention & crisis management, alignment with EU positions on regional and international issues, support to civil society and NGOs*)

➤ **ENP Methodology:**

- Build on existing contractual framework = ENP supplement existing contractual relations (Partnership and Cooperation Agreements = *Eastern Countries* & Barcelona Process = *Southern Countries*)
- ...taking on new elements and obligations
 1. Differentiation = Method essentially bilateral = “*different agendas for different regions*”= translated into the drawing up of **Action Plans** for each partner state= *Key operational instrument, Country-specific, tailor-made political documents= the result is a more effective EU action*
 2. Partnership & joint ownership = *Neighbourhood policy will only work if subscribed to by partner countries= the importance of cooperation and the effort to reach the EU conditions = the neighbourhood countries must become “owner” of this partnership offered by the EU = efforts required especially in fields of the respect of the human rights and regarding the liberalization of their economies.*

ENP is NOT about Enlargement, is an alternative to the EU integration perspective opened to the Balkans countries.

The ENP concerns issues posed by proximity and neighbourhood that have to be seen as separate from the question of the EU accession.

Bosnia Herzegovina/Albania, as a part of the Western Balkan, region are clearly in a different track: EU integration the objective.

II PART

Our policy framework, the SAP – 1999 launching of the SAP; Zagreb Summit in November 2000 – Instruments: ATMs, CARDS, SAA. Thessaloniki – Confirmed the perspective, proposed enhanced political dialogue and to use the enlargement method (Annual Reports, EPs, Taix, twinning, participation in Community Programmes, tenders, establishment of a regional school on public administration).

- The SAP is launched in 1999 with the objectives of achieving closer association with the EU, boosting regional co-operation and facilitating economic and political stability

-- Since 2000, preferential treatment are granted to products originating in the Western Balkans imported into the the EU

-- Since 2001, the CARDS programme provides financial assistance to the countries of the region

-- SAA (a cornerstone of the SAP and a key element in view of future accession).

- In June 2003, the Thessaloniki Agenda :

-- Confirmed the enlargement perspective

-- Enhanced political dialogue

-- « Enlargement method » : Annual reports, Accession partnerships, twinning, Taix, participation in community programmes, tenders, establishment of a school on public administration, etc.

-- Some additional funds

-- A word on the Annual Reports and European Partnerships: these documents identify the challenges that need to be addressed by the countries to achieve real progress towards the EU. On the basis of the priority areas identified, Western Balkan countries need to prepare a National Plan and implement it.

Requirements to accede the EU/Specific SAP Conditionality – Copenhagen Criteria/Specific SAP Conditionality.

- Acceding the EU is not an easy business: there are a number of demanding principles which need to be respected and implemented. The current enlargement has been a relatively long process, where candidate countries have gone through difficult reforms.

- The WBs will also be subject to the same principles. Old and new MS are not ready the lower the requirements. This means that WB will need to respond to the 1993 Copenhagen Criteria. In addition, they need to take into account additional conditionality which results from the particular situation of the region.

- Which are the Copenhagen Criteria ?

1. Stability of institutions
 - Democracy
 - Rule of law
 - Human rights
 - Minority rights
2. Existence of a functioning market economy
 - Able to cope with competitive pressures and market forces within the Union
3. Obligations of membership, including adherence to the aims of political, economic and monetary union.

Ability to apply the EC legislation in practice (legal system + public administration)

- An the specific SAP Conditionality ? (Conclusions of 29 April 1997)

- Refugee return in appropriate conditions (XX)
- Readmission of illegals (XX)
- Dayton/ICTY (XX)
- Human and minority rights
- Democracy/elections
- Freedom of media (XX)
- Progressive economic reform
- Regional co-operation (XX)

- Monitoring Instruments

Stabilisation and Association Process

After a period of violent conflict in the region the EU Regional Approach sought to underpin the implementation of the Dayton/Paris and Erdut agreements and bring basic stability and prosperity to the region. In May 1999 the European Commission set out the rationale for moving to a more ambitious vision for the region's development. This was based on:

a recognition that the main motivator for reform - including the establishment of a dependable rule of law, democratic and stable institutions and a free economy - in these countries is a relationship with the EU that is based on a credible prospect of membership once the relevant conditions have been met. This prospect was offered explicitly at the Feira European Council in June 2000.

the need for the countries to establish bilateral relationships between themselves which would allow greater economic and political stability in the region to develop
the need for a more flexible approach which, although anchored to a common set of political and economic conditions, allows each country to move ahead at its own pace. Assistance programmes and contractual relations have to be flexible enough to accommodate a range of situations from post-conflict reconstruction and stabilisation to technical help with matters such as the approximation of legislation to the core elements of the EU acquis.

At the [Summit Zagreb](#) (November 2000) of leaders from the EU and the countries of the Western Balkans, the region confirmed its full commitment to the Stabilisation and Association process.

The Stabilisation and Association process is a strategy explicitly linked to the prospect of EU accession and is adjusted to the level of development of each of the countries concerned, allowing them to move at their own pace. In return for the offer of the prospect of accession – and assistance to achieve it – the countries of the region have undertaken to meet the political and economic requirements set for all aspirants.

The Stabilisation and Association Process has already proved a success in stabilising the Western Balkans, laying the foundation for further reform and faster transition. The Stabilisation and Association Process is a progressive partnership, in which the EU offers a mixture of trade concessions (Autonomous Trade Measures), economic and financial assistance (CARDS Programme) and contractual relationships (Stabilisation and Association Agreements).

Regional co-operation constitutes an essential element of the Stabilisation and Association process: enhanced regional co-operation is recognised as a qualifying indicator of the Western Balkan countries' readiness to integrate into the European Union. The Annual Report on the Stabilisation and Association process is a key instrument which assesses the readiness of the Western Balkan countries to move closer to the European Union. It summarises progress made during the reference period by the individual countries, monitors the development of regional co-operation and also assesses the impact of the Stabilisation and Association instruments.

At the Thessaloniki Summit (June 2003), the EU reaffirmed its commitment to the integration into the Union of the countries of the Western Balkans. The Stabilisation and Association process was enriched by including salient aspects of the enlargement strategy, so that it can better meet the new challenges. The Thessaloniki Agenda introduced an array of new instruments to support the reform process in the Western Balkan countries and to bring them closer to the European Union. The most far-reaching of these new instruments are the

European Partnerships, inspired by the Accession Partnerships for the candidate countries. The first set of European Partnerships was approved in 2004: by identifying short and medium-term priorities which the countries need to address, the European Partnerships will help the Western Balkans countries with their reforms and preparations for future membership.

Stabilisation and Association Agreement:

The Stabilisation and Association Agreements are tools which provide, much as the Europe Agreements did for the candidate countries in Central Europe, the formal mechanisms and agreed benchmarks which allow the EU to work with each country to bring them closer to the standards which apply in the EU.

The Stabilisation and Association Agreements focus on respect for key democratic principles and the core elements which are at the heart of the EU single market. Through a free trade area with the EU and the associated disciplines (competition and state aid rules, intellectual property etc) and benefits (e.g. rights of establishment), this process will allow the economies of the region to begin to integrate with the EU's. For those areas where the agreements do not impose specific obligations relating to the EU acquis, there are provisions for detailed co-operation and discussion with the EU which again have the purpose of helping each country move closer to EU standards.

The Stabilisation and Association Agreements are tailored to the circumstances of each country. However, each agreement is intended to have the common purpose of achieving the sort of formal association with the EU described above. The destination for all countries is expected to be the same: the full realisation of association after a transitional period through implementation of the same core obligations.

The Stabilisation and Association Agreements with the EU are the means necessary to encourage these countries to adopt real reforms towards the immediate objectives of the agreements (full realisation of the association) and beyond (bearing in mind the reference in the evolutionary clause to "status of potential candidate"). The mechanisms of the Stabilisation and Association Agreements themselves (from specialist sub-committees to political level meetings such as the Stabilisation and Association Council) will allow the EU to help prioritise reforms, shape them according to EU models, solve problems, and monitor their implementation. Effective implementation of the Stabilisation and Association Agreements is a prerequisite for any further assessment by the EU of the country's prospects of accession. Each will need time, help and encouragement to implement such obligations properly.

Assistance

The EU's CARDS (**Community Assistance for Reconstruction, Development and Stabilisation**) programme brings a more strategic approach to assistance to the Stabilisation and Association process countries. It underpins the objectives and mechanisms of the Stabilisation and Association process, i.e. the new Stabilisation and Association Agreements including the preparation for them. As each country moves deeper into the Stabilisation and Association process, assistance will focus increasingly on support for the reforms and institution building necessary to implement the obligations in the Stabilisation and Association Agreements. Country strategies and multi-annual programmes are being drafted

accordingly. But this is not to ignore the political requirement to help prevent or deal with crisis as necessary and finish the massive reconstruction task the Community has been set. Community policy sets itself the goal of responding effectively to volatility while holding a steady course towards the strategic goal of integration into the EU.

The regional dimension

The Stabilisation and Association process is not simply a bilateral process with each country. The Zagreb Summit placed considerable emphasis on the central need for regional co-operation as part of the EU's "contract" with the Stabilisation and Association process countries. Similarly the Stabilisation and Association Agreements include a clear commitment to regional co-operation. CARDS will have an important regional component. The EU's policy objectives are principally:

to encourage the countries of the region to behave towards each other and work with each other in a manner comparable to the relationships that now exist between EU Member States. An important means to this end will be the establishment of a network of close contractual relationships (conventions on regional co-operation) between the signatories of Stabilisation and Association Agreements, mirroring the bilateral relationship with the EU as represented by the Stabilisation and Association Agreements.

the creation of a network of compatible bilateral free trade agreements (as part of the conventions mentioned above) which means that there are no barriers to goods moving between the countries of the regions themselves nor with the EU and, in effect, neighbouring candidate countries;

the gradual re-integration of the Western Balkans region into the infrastructure networks (TENS) of wider Europe (transport, energy, border management);

to persuade the authorities in the countries of the region to work together to respond effectively to the common threats to the region's and the EU's security which come from organised crime, illegal immigration and other forms of trafficking. In many cases, e.g. on visa policy, a common approach by all the countries will be needed to deal with the threat effectively.

Each country's contribution to achieving these objectives will help to determine the EU's assessment of that country's implementation of a Stabilisation and Association Agreement and its readiness to contemplate the greater demands of full integration into the EU.

The Cards Programme

A key external relations' priority for the EU is to promote stability and peace in the Western Balkans, not only on humanitarian grounds but also because the region's conflicts are at odds with the wider objective of security and prosperity across the continent of Europe.

Since 1991 the European Union has committed, through various assistance programmes, € 6.8 billion to the Western Balkans. In 2000 aid to the region was streamlined through a new programme called CARDS (Community Assistance for Reconstruction, Development and Stabilisation) adopted with the Council Regulation (EC) No 2666/2000 of 5 December 2000.

The programmes wider objective is to support the participation of the countries of the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, Serbia, Montenegro and the former Yugoslav Republic of Macedonia) in the Stabilisation and Association Process (SAp)

The Stabilisation and Association process is the cornerstone of the European Union's policy towards the region. It seeks to promote stability within the region whilst also facilitating closer association with the European Union. A key element of the SAp, for countries that have made sufficient progress in terms of political and economic reform and administrative capacity, is a formal contractual relationship with EU in the form of a Stabilisation and Association Agreement. The SAp is designed to help each country to progress at its own pace towards greater European integration.

Through the programme € 4.6 billion will be provided to this region in the period 2000 to 2006 for investment, institution-building, and other measures to achieve four main objectives:

1. reconstruction, democratic stabilisation, reconciliation and the return of refugees
2. institutional and legislative development, including harmonisation with European Union norms and approaches, to underpin democracy and the rule of law, human rights, civil society and the media, and the operation of a free market economy
3. sustainable economic and social development, including structural reform
4. promotion of closer relations and regional cooperation among countries and between them, the EU and the candidate countries of central Europe.

Since early 2005 the Directorate-General Enlargement has been responsible for managing all relations with the countries of the Western Balkans. This includes political relations and the development and management of the CARDS programme.

European Union assistance in Albania, Bosnia and Herzegovina and Croatia managed by the European Union's Delegations in those countries. The European Agency for Reconstruction (Council regulation No 2667/2000-05/12/2000) is responsible for assistance in Serbia and Montenegro, and the former Yugoslav Republic of Macedonia. The EuropeAid Co-operation Office manages all regional programmes.

Albania

After the Second World War Albania remained under an isolationist communist regime until the country's transition to democracy in 1990. The 1992 elections ended 47 years of communist rule, but transition has proved difficult as successive governments faced high unemployment, corruption, dilapidated infrastructure, organized crime and a difficult political environment. However, important reforms have taken place, and Albania currently has a relatively high private sector share in the economy and a high level of GDP growth.

Current contractual relations between the EU and Albania are based on the 1992 Trade, Commercial and Economic Co-operation Agreement, which aims to develop trade between Albania and the EU and foster commercial and economic co-operation.

Since 1999, the stabilisation and association process (SAP) has been the EU's policy for the Western Balkan countries, including Albania. It offers the countries the prospect of future EU membership. It includes a number of instruments, such as trade measures, financial assistance, contractual relations and priority setting, which are designed to help the countries reform on their way towards the EU. In particular, the establishment of contractual relations with the EU through comprehensive association agreements, known as "Stabilization and Association Agreements" (SAAs) plays a pivotal role. Since 2000, the EU has unilaterally granted trade concessions for Albania's products.

Negotiations for an SAA were opened in early 2003. The conclusion of these negotiations depends on the Albanian authorities' progress in a number of areas essential for the implementation of an SAA. Specifically, these are sound parliamentary elections and

progress in fighting organised crime, trafficking and corruption, improving the judicial system, implementing the land restitution law, improving conditions for detainees, reinforcing the freedom of the media and enhancing the performance of the customs administration.

As regards **political developments**, the summer 2005 parliamentary elections were fundamentally sound and led to a smooth transfer of power. Parliamentary procedure was improved, the government developed new strategies relevant to Albania's progress towards the EU and strengthened its Ministry of European Integration. Albania has improved the oversight, recruitment and training of its public administration and the training of its judiciary, and worked towards better judicial transparency and co-ordination. A new conflict of interest law, participation in internationally-led anti-corruption work and strengthened measures against corruption among civil servants were welcome, as were efforts to improve conditions for detainees. A new property restitution law was a positive step. Albania has continued to provide an example of religious tolerance, and contribute to political stability and commercial development in the region, maintaining a constructive policy towards Kosovo.

Albania should now make full use of its parliament to foster constructive consensus on reform, and its government should implement existing strategies and laws with more vigour. Electoral shortcomings should be addressed. The government should ensure adequate resources for the Ministry of European Integration, clearly divide the political and administrative levels of the public administration, and improve employment conditions for civil servants. Judicial independence, transparency and co-ordination should be improved, and more judgements executed. Albania's anti-corruption action plan and related international recommendations should be implemented. Physical conditions for prisoners should be improved and knowledge and enforcement of laws against ill-treatment strengthened. Development of new laws to protect media freedom and implementation of the property restitution law should be accelerated. More effort is needed to implement minority rights commitments.

As regards **economic developments**, growth remained strong while inflationary pressure remained subdued. The current account deficit has narrowed. Fiscal consolidation continued and the budget deficit declined. Public administration reform has continued and tax administration has been improved. Some progress has been made on public financial control and internal audit. Privatisation of small- and medium-sized enterprises has been completed. The privatisation of the Savings Bank was completed in 2004. Prudential supervision has been strengthened. The labour market is relatively flexible.

However, public sector governance should be strengthened and the privatisation of large enterprises has been delayed. The performance of the financial sector in channelling savings towards productive investment has improved, but remains weak. The establishment and enforcement of property rights remain difficult, damaging the potential for investment and economic activity. Weak infrastructure, poor legislation and weak implementation of tax legislation continued to hinder enterprise creation. Unfair competition from the grey economy remains a problem. Educational attainment remains relatively low and the supply of skilled labour is limited.

As regards **EU standards**, Albania made progress in areas related to the internal market by strengthening standardisation and certification. Improved customs rules, customs revenue collection and taxation legislation were welcome. The establishment of a state aid department, measures to improve statistics and new intellectual property rights legislation were positive steps. Albania should now improve its laws and implementation capacity for market surveillance and consumer protection. More work is required to address corruption in the customs service and to implement tax legislation fairly and effectively. Better understanding of competition principles among market actors is needed, and a state aid office should be established. Public procurement legislation should be improved, and current rules respected,

particularly in the transport sector. Enforcement of intellectual property rights should be enhanced. Macroeconomic statistics should be improved.

Albania has made good progress in the energy sector, and has liberalised the telecommunications sector. Albania should now fully implement its action plan to reduce administrative barriers to business and address the informal economy, and agricultural and fisheries product quality should be improved. Capacity to implement environmental legislation should be strengthened, and transport and energy master plans implemented. Information and communications technology legislation should be brought up to EU standards.

As regards justice, freedom and security, Albania has made its travel documents more secure, improved management and IT for border control, adopted national strategies on migration and asylum, and signed a readmission agreement with the EU. Further steps to fight money laundering, the adoption of a National Anti-Drug Strategy, the introduction of special investigative means and new asset seizure legislation were positive steps. Police departments fighting organised crime, corruption and terrorism were strengthened and more measures taken to fight internal corruption. Albania adopted a targeted package of laws against organized crime and terrorism and has supported international anti-terrorism initiatives. Nevertheless, much effort is still required. Albania should develop an integrated border management strategy, implement its migration and asylum strategies and the EU readmission agreement, and improve its visa system. Law enforcement bodies fighting money laundering should be given appropriate resources. Albania should give higher priority to implementing its anti-drugs strategy, further strengthen enforcement and prevent the internal obstruction of investigations. It should further improve police management, training and equipment, and conclude a co-operation agreement with Europol. Albania's new laws should be used to improve results in fighting organised crime and terrorism, implementation of the action-oriented measures against organized crime should be accelerated and witness protection improved. Albania should improve internal co-ordination and make better use of international co-operation in fighting organised crime. Implementation of international conventions on terrorism should be accelerated and airport security further improved.

The Commission will continue to support Albania in its efforts to make further progress. Regular political, economic and technical contacts will continue. Significant pre-accession assistance continues to be provided. For 2005, around EUR 44 million is available for Albania.

In conclusion, Albania has made further progress in the SAP. The summer 2005 parliamentary elections were conducted in a fundamentally sound manner and progress in the development of the legislative and institutional framework and of the administrative capacity required for the proper implementation of the future SAA is sufficient to allow the Commission to recommend to the Council the conclusion of SAA negotiations with Albania. Nonetheless, Albania will need to remedy the remaining shortcomings in its electoral system and make further substantial reform progress, in particular in the areas of fighting organised crime, trafficking and corruption, implementing the law on land restitution, improving conditions for detainees and reinforcing media freedom to allow Albania to benefit fully from a future SAA.

Bosnia and Herzegovina

Following its declaration of independence in April 1992 Bosnia and Herzegovina was plunged into a three-year long war. This led to major displacements of the population and to extensive physical and economic destruction. On 21 November 1995, in Dayton (USA), a peace agreement that put an end to the war was initialled. This agreement was formally signed in Paris on 14 December 1995. The Dayton/Paris Peace Agreement retained Bosnia and

Herzegovina's international boundaries and created two Entities within the Bosnia and Herzegovina State: the Bosniak/Croat Federation of Bosnia and Herzegovina (the Federation of Bosnia and Herzegovina) and the Bosnian Serb-led Republika Srpska (the Republika Srpska). The Peace Agreement grants a significant role to the international community in the overall administration of the country and provides Bosnia and Herzegovina's constitutional framework.

Since 1999, the Stabilisation and Association Process (SAP) has been the EU's policy for the Western Balkan countries, including Bosnia and Herzegovina. It offers these countries the prospect of future EU membership. It includes a number of instruments, such as trade measures, financial assistance, contractual relations and priority setting, which are designed to help the countries reform in their way towards the EU. In particular, the establishment of contractual relations with the EU through comprehensive association agreements, known as "Stabilization and Association Agreements" (SAAs) plays a pivotal role. Since 2000, the EU has unilaterally granted trade concessions for Bosnia and Herzegovina's products.

In November 2003, the European Commission published a Feasibility Study on the country's preparedness to negotiate and implement a SAA. The Feasibility Study listed sixteen priorities to be addressed before SAA negotiations could be opened. Bosnia and Herzegovina has made significant progress in addressing these priorities and the Commission has therefore recommended the opening of these negotiations.

As regards **political developments**, Bosnia and Herzegovina has overall made progress in further consolidating the stability of its institutions guaranteeing democracy, the rule of law, human rights and minority rights. In particular, co-operation with UN International Tribunal for the former Yugoslavia (ICTY) has seen improvements, the 2004 municipal elections were properly organised and progress has been made towards improving public administration and the judicial system. The return of refugees and displaced persons to their pre-war areas has been a major success. Progress in the areas of defence and, recently, on police reform have also been positive developments. Constructive regional co-operation has continued.

Bosnia and Herzegovina's efforts should now concentrate in achieving full co-operation with ICTY, ensuring that State-level ministries and institutions are fully operational and in adopting and implementing a sound and comprehensive action plan for public administration reform. It is important to further increase the effectiveness of executive and legislative bodies. Co-ordination between the State and the Entities should be strengthened. The issue of corruption deserves further attention. Continued progress is also necessary in order to meet international standards in the area of human and minority rights, as well as to fulfil outstanding Council of Europe post-accession requirements, notably in the areas of elections and education. In this respect, due attention should be paid to avoid the division of schools along ethnic lines. The proper and timely implementation of the police restructuring in accordance with EU requirements is crucial.

As regards **economic developments**, some positive developments can be recorded. Economic growth rebounded in 2004 and industrial production picked up. Inflation has remained low while inflows of foreign direct investments have been significant. Further harmonisation between the Entities has taken place, in particular in the area of indirect taxation. Efforts to increase fiscal and economic policy coordination have been made, for example through the establishment of a National Fiscal Council. Some steps to improve the business climate have been taken.

However, unemployment and external imbalances have remained very large and fiscal challenges have risen. A prudent macroeconomic policy mix will be imperative to maintain macroeconomic stability. Restructuring and privatisation of state-owned companies has not seen much progress. Further efforts to limit public interference in the economy, to improve the business climate and to increase the flexibility of the labour market are essential. The judicial system should be strengthened, in particular as regards the handling of bankruptcies

and property rights. To successfully manage the fiscal challenges, coordination and analytical capabilities need to be improved and the size of public expenditures to be reduced in real terms.

As regards **EU standards**, the adoption of improved legislation in key internal market-related areas as well as the establishment of institutions such as the Indirect Taxation Authority and the Competition Council have been positive developments. Bosnia and Herzegovina needs to ensure the proper implementation and enforcement of the adopted legislation. The newly established institutions should become fully operational and able to fulfil its tasks. There have been improvements in the sectoral policies such as agriculture and energy sectors. The adoption of the public broadcasting system law and the progress made towards the adoption of the public broadcasting service law is also to be welcome. Sound strategies should now be adopted in key sectors such as energy, industry, small and medium enterprises and agriculture. Implementation capacity in the field of environment should be substantially strengthened, in particular at State-level. The implementation of the various energy-related action-plans should be ensured, as well as the adoption of all necessary public broadcasting legislation, including at Entity level.

In the area of justice, freedom and security, an Integrated Border Management strategy and a strategy against the trafficking in human beings have been adopted. Progress has also been made in relation to visa requirements, asylum, migration and money laundering. However, sufficient resources have to be provided to State-level institutions. Proper implementation and enforcement of money laundering legislation needs to be ensured. Concrete measures should be taken regarding the fight against drugs trafficking. Determined efforts are necessary regarding the fight against organised crime as this is a major threat for stability and overall socio-economic development. In this respect proper implementation of laws and prosecution of criminals is paramount.

The Commission will continue to support Bosnia and Herzegovina in its efforts to make further progress. Regular political, economic and technical contacts will continue. Significant pre-accession assistance continues to be provided. For 2005, EUR 49.4 million is available for Bosnia and Herzegovina

In conclusion, Bosnia and Herzegovina has made further progress in tackling the main priorities identified within the SAP. Progress should now be accelerated. In this respect, it is essential that all the necessary public broadcasting legislation, including at Entity level, be adopted and applied, that the agreement on the police restructuring be properly implemented and that full co-operation with ICTY be rapidly achieved. Addressing the shortcomings identified in the Progress Report is crucial in order for Bosnia and Herzegovina to make continuous progress towards the EU.