



COMMISSION OF THE EUROPEAN COMMUNITIES

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**Regional Approach to the countries of South-Eastern Europe:
Compliance with the conditions in the Council Conclusions of 29 April 1997**

COMMISSION COMMUNICATION ON OPERATIONAL CONCLUSIONS

Bosnia and Herzegovina, Croatia, Federal Republic of Yugoslavia,
former Yugoslav Republic of Macedonia and Albania

INTRODUCTION

In the context of the Regional Approach to the countries of South-Eastern Europe¹, the Council established political and economic conditions² to be fulfilled by these countries, as the basis for a coherent and transparent policy towards the development of bilateral relations with these countries in the field of trade, financial assistance and economic cooperation, as well as of contractual relations.

The present Commission Conclusions have been reached on the basis of a factual report³ which reviews compliance with these conditions by Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia (FRY) - all of which are subject to obligations under the peace agreements - as well as the former Yugoslav Republic of Macedonia, and Albania. For each country, compliance has been reviewed under the following headings: democratic principles; human rights and the rule of law; respect for and protection of minorities; market economy reforms; regional cooperation⁴; and, in the case of Bosnia and Herzegovina, Croatia and the Federal Republic of Yugoslavia, compliance with obligations under the Dayton and Erdut Agreements and the Peace Implementation Councils.

While progress has been made in some areas, the compliance by some countries in the areas of democratic reforms, respect for human and minority rights, economic reforms and regional cooperation has been less than satisfactory. In particular, for Bosnia and Herzegovina, Croatia and the FRY, improvements are necessary with regard to the return of refugees and displaced persons to their place of origin, cooperation with the International Criminal Tribunal on former Yugoslavia and the implementation of the peace agreements, as well as in the integration of the population of Eastern Slavonia (Croatia) and a solution to the Kosovo conflict (FRY).

At this time, the Commission has therefore concluded that the status quo in relations with the countries covered by the Regional Approach should continue.

¹ Conclusions of the General Affairs Council of 26 February 1996, followed by a Commission report on common principles for future contractual relations with certain countries in South-Eastern Europe: Report from the Commission to the Council and the European Parliament [COM(96)476 final of 2.10.96]

² Conclusions of the General Affairs Council of 29 April 1997

³ Commission Staff Working Paper: Regional Approach to the countries of SouthEastern Europe: Compliance with the conditions in the Council Conclusions of 29 April 1997: Bosnia and Herzegovina, Croatia, Federal Republic of Yugoslavia, former Yugoslav Republic of Macedonia and Albania [SEC(1998) ... of ... 10.98]

⁴ See the Commission Staff Working Paper: Second Report on Economic Relations between the countries of SouthEastern Europe concerned by the EU's Regional Approach [SEC(98)381 of 27.2.98] which covers developments during 1997

CONCLUSIONS

On the basis of the factual report - covering the period to October 1998 - contained in the Commission Staff Working Paper on compliance, by the five countries concerned, with the conditions set out in the Council Conclusions of 29 April 1997 [SEC (1998) 1727 of 19.10.98], the Commission has reached the following conclusions.

Section 1

1. BOSNIA AND HERZEGOVINA

1.1. General assessment

On democratization and human rights, much work is still ahead. Efforts to favour refugee (in particular minority) return are still hampered by the lack of co-operation of BiH authorities, at different levels, in the two Entities. Reform of the judiciary is urgent and substantial developments are needed in the fields of education, civil society and the fight against fraud. The newly elected BiH authorities should fully respect Dayton commitments.

Certain steps towards market economy reform have been taken (e.g. establishment of a Central Bank, introduction of a new currency, Custom code, privatization laws) but major progress is still required for the implementation of a transparent and common / harmonized legal and regulatory framework in both entities in key sectors such as the monetary and banking system, commercial and tax treatment of private companies, and conditions for foreign investment.

Concerning implementation of the Dayton Accords, basic laws have been adopted and the central institutions have been established, under pressure from the High Representative, but these are not yet functioning adequately. On freedom of movement, the conditions for a lasting reconciliation have not yet been established (independent judiciary; multi-ethnic police; adoption in the RS, and implementation in both Entities of property and housing legislation).

The former RS government had made some progress regarding conditionality, especially in the economic field.

1.2 Operational Conclusions

Bosnia and Herzegovina continues to benefit from the **autonomous trade preferences** extended by the European Community.

Bosnia and Herzegovina is not eligible for full PHARE assistance as the relevant conditions have not been met. Projects in direct support of the peace agreements, targeted at reconstruction, institution building and refugee return (in accordance with the Council Conclusions of 29 April 1997) receive PHARE support. A progressive start of full PHARE will depend *i.a.* on the will of the newly elected BiH authorities, at State and Entity level, to respect the relevant conditionality criteria.

While the EU Declaration on Bosnia and Herzegovina adopted on 8 June confirmed aspirations regarding closer relations, it is still too early, however, to begin negotiations on a **Cooperation Agreement** with the Community.

2. Croatia

2.1 **General Assessment**

Progress in the different areas has been varied. As in the previous reports, a considerable discrepancy persists between official statements and practice on the ground. There has been little or no progress in democratisation or respect for human rights - most notably as regards media and electoral reform. There have been some positive developments in preparations for refugee return with the adoption of the Return Programme - though it is to be regretted that the adoption process was so difficult. It is too early to judge the success of the Return Programme as full implementation is necessary (as with the Programme for the Reestablishment of Trust). This will be closely monitored, particularly as actions in this area have repercussions beyond Croatia. Respect for Dayton and Erdut obligations - including respect for minority rights in Eastern Slavonia - remains problematic. There has been substantial progress in cooperation with neighbouring countries. Regarding market economy reform, there has been progress in some areas such as privatisation and foreign direct investment, while in particular banking supervision remains to be considerably improved.

2.2 **Operational Conclusions**

Croatia continues, at present, to benefit from the autonomous trade preferences extended by the European Community.

While some progress has been made in relation to a few of the relevant conditions, Croatia has not yet fulfilled the conditions for additional progress in its relations with the Community, in particular the lifting of the suspension of its eligibility for **PHARE**. Assistance under other Community programs - including reconstruction - will continue. Notwithstanding that conditions do not exist at present for PHARE assistance, the EC has already given substantial assistance (humanitarian assistance, support for democratisation and independent media, and reconstruction) and remains willing to provide more - ~~particularly~~ for the return process. Discussion of the possible opening of negotiations on a **Cooperation Agreement** is, at this stage, premature. Progress in relation to the relevant criteria will be closely monitored.

3. Federal Republic of Yugoslavia

3.1 General Assessment

The picture is again mixed, with contrasting developments in Serbia and Montenegro.

The Kosovo issue, which has now resulted in open conflict, dominates developments in **Serbia** in relation to democratisation, human and minority rights, economic reform and relations with neighbours. In terms of respect for democratic principles, the gap between theory and practice remains as wide as ever. Human and minority rights are clearly not respected - dramatically so in Kosovo. There have been no efforts at economic reform - in fact there has even been back-tracking on a number of policy areas such as WTO accession. Relations with neighbouring countries vary, with the potential for further deterioration in relations with those bordering Kosovo.

Measures currently in force against **Serbia** include an arms embargo, a visa ban, a supply-ban on equipment which could be used for terrorism or police repression, a moratorium on export credit, a freeze on Serbian / FRY Government funds held abroad, a prohibition on new investment, and a flight ban on FRY-registered airlines.

In **Montenegro**, by contrast, the positive impulsion towards democratic reform has continued (despite continuous pressure from the federal level), with well-conducted elections, increased media freedom, respect for minority rights, moves towards economic reform, improving relations with neighbouring countries. The welcome provided to displaced persons from Kosovo, and the cooperation of the Montenegrin authorities with international aid organisations has been notable. However, there has been a recent decision to refuse entry to further internally displaced persons from Kosovo.

3.2 Operational Conclusions

The FRY, at federal level, has not fulfilled the conditions relating to inclusion in the **autonomous trade regime**, eligibility for the **PHARE** programme or for the opening of negotiations on a **Cooperation Agreement**. Given the present state of relations with the FRY, and the continuing conflict in Kosovo, discussion of any of these would be inappropriate.

Each of these forms of bilateral relations with the European Community applies to the state (Federal Republic of Yugoslavia) as a whole. As these instruments can not therefore be used for the benefit of **Montenegro**, continuing assistance to that republic will be by means of other Community instruments e.g. reconstruction assistance (in the fields of agriculture, transport, education and public administration)

Section 2

4. Former Yugoslav Republic of Macedonia

4.1. General assessment

The former Yugoslav Republic of Macedonia clearly presents a picture of political maturity and is a positive example of stability in the region, respecting fully basic democratic principles and the principle of regional cooperation. The constructive stance of the former Yugoslav Republic of Macedonia with regard to the Kosovo issue is much appreciated, as is the fact that the former Yugoslav Republic of Macedonia will actively facilitate the Kosovo Verification Mission, but more attention should be paid to the reception of refugees from that conflict. Notable achievements and a credible commitment can be observed in the fields of human rights and the rule of law, respect for and protection of minorities, market economy reform. Continued attention should be paid to these fields, particularly in the following specific areas: public administration reform including the judiciary, law enforcement and local government; education for the Albanian minority; minority representation in the security forces; use of minority languages; private sector development including the completion and enforcement of the appropriate legal framework; the banking sector.

4.2. Operational conclusions

The country will continue to benefit from Community assistance, notably in the framework of **PHARE** with a view to achieving further progress in all fields. It is important that all agreed programmes are fully implemented, including for public administration reform, private sector development and agriculture. In addition to support the pedagogical faculty at Skopje University under the Tempus programme, the Commission intends to propose to the authorities of the former Yugoslav Republic of Macedonia, that the possibilities of specifically contributing through PHARE to further improvement of inter-ethnic relations in the country should be examined jointly, namely in the framework of the public administration reform programme or the Municipal Regeneration Fund.

Regarding **contractual relations** with the Community, the Cooperation Agreement (including the Protocol on Financial Cooperation) and the Agreement in the Field of Transport will continue to be fully implemented. Relations will develop on this basis, including in the framework of working parties established at the first Cooperation Council of 20/21 March 1998 and **Political Dialogue**. A possible upgrading of relations between the Community and the former Yugoslav Republic of Macedonia will be considered at a later stage, taking into account the state of play both of relations under the Cooperation Agreement and of assistance under PHARE, as well as developments in the country *inter alia* in the above-mentioned areas.

5. Albania

5.1. General assessment

The process of stabilization, recovery and democratization in the country and continues to develop rather unevenly and is still confronted with severe problems. Political life remains highly confrontational and public order rather volatile as highlighted by renewed turmoil in September 1998 followed by a new government in October 1998. Progress, in terms of macro-economic stabilization, was confirmed throughout 1998, but economic development is vulnerable to continuing political instability and lack of public order and security. Continuous efforts are also needed to fully implement ongoing major reforms in the financial sector. First steps with respect to institutions and public administration are encouraging but should be confirmed and completed by sustained efforts in the fight against fraud and corruption. Law enforcement and progress in the field of individual civil rights will also require the effective strengthening of the judiciary. Additional effort is also required regarding electronic media. Compliance with the principle of regional cooperation is satisfactory.

5.2. Operational conclusions

PHARE assistance will be continued with a view to achieving further progress in stabilization, recovery and democratisation in the country, and to enhancing regional cooperation. The implementation of agreed programmes, in particular in the fields of public administration reform, agriculture, large infrastructure and local community development is of crucial importance. In this context, it is important that Albania provides the necessary conditions in terms of public order and security. The stabilization and recovery process also presupposes continued efforts to reform the financial sector and to stabilize political life.

Contractual relations with the Community are based on the 1992 Trade and Cooperation Agreement and the connected Declaration on **Political Dialogue**. Relations will develop on that basis. As a follow-up action to the Joint Committee of 23/24 March 1998, the Commission considers it appropriate to examine the possibility of an upgrade of the bilateral trade regime towards a preferential regime comparable with regional standards in order to promote the development of exports. To this end a formal proposal complementing the existing Trade and Cooperation Agreement would be required. Further progress, especially in those political and economic areas where significant problems remain, is urgently needed before consideration can be given to more substantial intensification of relations with the EU.

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DOCUMENTS

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